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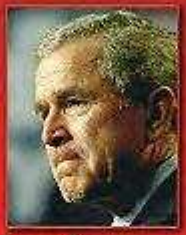

The incompetent or the incoherent?

Our election verdict

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With a heavy heart, we think American readers should vote for John Kerry on November 2nd ... More on this week's lead article

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Politics this week

Oct 28th 2004
From The Economist print edition

The final straight

EPA

The **presidential campaign** entered its final week with the candidates neck-and-neck. John Kerry called in Bill Clinton to help, George Bush looked to Arnold Schwarzenegger to add extra muscle to his campaign.

See article

Chief Justice William Rehnquist, the **Supreme Court's** leading conservative, was treated for thyroid cancer. He will return to work next week, but it alerted American voters to the probability that the next president will have to appoint new judges.

The FBI's **annual crime report** showed that the number of violent crimes decreased by 4% in America last year; murder was the only category where crime rose, with 16,503 slayings in 2003.

The **Chicago** City Council voted to approve a plan to lease a toll-road into the city for 99 years to a Spanish-Australian joint-venture in exchange for $1.8 billion. The measure will relieve the city's budget crisis.

The **Boston Red Sox** won baseball's World Series for the first time since 1918. The victory lifts a supposed curse that has dogged the team since it sold Babe Ruth to the New York Yankees in 1920.

Sick leave

The **Palestinian** leader, Yasser Arafat, became seriously ill with what his aides described as “stomach flu”. Teams of doctors converged on his compound in Ramallah. Israeli officials said they would allow Mr Arafat to seek treatment wherever he wanted, but it was not clear whether he would be allowed to return.

See article

A **massacre** of 48 recruits to the Iraqi National Guard by terrorists posing as policemen raised fears that rebels had thoroughly infiltrated the country's new security forces.

Israel's parliament voted to back Prime Minister Ariel Sharon's plan to pull Jewish settlements out of **Gaza** next year. But ministers within Mr Sharon's party threatened to resign if he did not put the issue to a national referendum.

See article

South Africa's finance minister, Trevor Manuel, unveiled a massive public-spending plan aimed at lifting the country's sluggish growth rate above 4%.

See article

Representatives of South Africa's main trade-union body tried to visit **Zimbabwe** to investigate prosecution of union members there. Zimbabwe's government gave them a long list of organisations that they could not meet, and then deported them.

At least 40,000 women have been raped in the past six years in **Congo**, mostly by combatants, said Amnesty International, a human-rights group. Amnesty complained that the victims were receiving little medical help.

Clear winner

Hamid Karzai was set to be declared outright winner of **Afghanistan's** presidential election. With 99% of the vote counted, he had secured 55%, enough to avoid a run-off.

See article

A radical Islamic cleric, Abu Bakar Basyir, went on trial in **Indonesia** in connection with the Bali bombing of 2002.

Nearly 80 people suffocated in packed vans after being arrested during a riot in southern **Thailand**.

See article

The president of **Pakistan**, Pervez Musharraf, proposed that Kashmir might become a condominium with India, a step away from Pakistan's usual stance that Kashmiris should vote to accede to one country or the other.

See article

John Howard's ruling coalition finally won outright control of **Australia's** Senate, more than two weeks after elections there. The government will now be able to pass legislation, particularly on privatisation, formerly blocked by the upper house.

A series of earthquakes struck **Japan**, the biggest since the Kobe quake of 1995.

See article

AP

Down with the dollar

Cuba's president, Fidel Castro, announced that from November 8th the dollar would cease to be legal tender and there would be a 10% commission for converting dollars to pesos. Cubans rushed to convert their savings.

See article

Argentina's Supreme Court backed the government's 2002 decision to convert dollars in bank accounts to pesos at one to two after devaluing the peso. Banks will breathe easier; depositors, who lost out as the peso tumbled further, are furious.

Decommissioned

The Dutch presidency of the **European Union** was struggling to mitigate the effects of a deep political crisis which has struck the EU's executive following the European Parliament's refusal to endorse a new team of commissioners. The issue was expected to loom large at an EU summit in Rome on October 29th.

See article

The National Security Council in **Turkey** said the European Union must treat the country like any other aspiring member, with no special conditions. This followed a Franco-German agreement that the EU should be open to Turkish membership—though it was stressed in Paris that Turkish entry was not a

done deal.

Greece made a formal diplomatic protest to **Turkey** over what it said were repeated violations of its airspace by Turkish military aircraft. Turkey insisted that the military manoeuvres in question had been routine.

Virtually all the Serbs entitled to vote in **Kosovo** heeded a boycott call during a province-wide election, in which the Albanian majority signalled their desire for independence.

See article

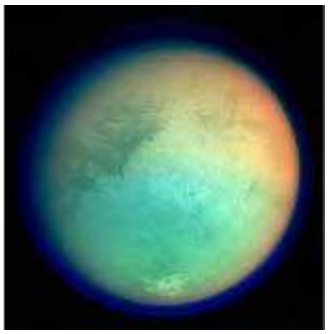
Russia's President Vladimir Putin warmly praised Victor Yanukovich, Ukraine's prime minister and one of the two candidates for that country's presidency in a forthcoming election. Supporters of his rival, Victor Yushchenko, called this clear evidence of Russian interference.

See article

Lithuania and **Latvia** both faced changes of government. Lithuania's populist new Labour Party came top in a general election, forcing the outgoing centre-left coalition into talks with conservative and liberal parties about a left-right alliance excluding Labour. Latvia's short-lived minority government appeared set to resign after losing a budget vote in parliament.

NASA's *Cassini* spacecraft flew within 1,200 kilometres of Saturn's moon **Titan**, which is the only satellite in the solar system to have an atmosphere. It took some blurry pictures, which could help probe the origins of life.

AFP



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Business this week

Oct 28th 2004
From The Economist print edition

Big is back

Lakshmi Mittal, a British-based steel baron, is creating the world's largest steelmaker with the complex three-way merger of Ispat International, of which he owns 77%, with his own private steel firm, LNM, and America's International Steel Group.

See article

China raised its one-year lending rate from 5.31% to 5.58%, the first such rise in nine years.

Marsh & McLennan accepted the resignation of its chief executive, Jeffrey Greenberg, and said that it would stop taking contingent payments from insurance firms. The payments are at the heart of a lawsuit against the world's leading insurance broker brought by Eliot Spitzer, New York state's attorney-general. The suit accuses the firm of price fixing. Michael Cherkasky will replace Mr Greenberg.

See article

Unsanctioned

The European Union lowered the temperature of transatlantic **trade disputes** by cancelling sanctions on some $4 billion-worth of American goods. The move came after the Bush administration repealed much of a system of tax subsidies to exporters that was deemed illegal by the World Trade Organisation. But the EU said that it would check that surviving subsidies did not breach trade law.

Rupert Murdoch's **News Corp** cleared the final hurdle in its attempts to move its corporate base from Australia to the United States. Shareholders approved a plan that Mr Murdoch hopes will increase access to capital.

Shares in **Enel**, Italy's leading electricity company, soared after the government sold a stake of some 20% in the firm for *euro*7.6 billion ($9.7 billion). The government, which still owns 30% of Enel, has plans for a slew of asset sales as a measure to control the country's hefty debt.

Manchester United, the world's richest football club, ended talks about a possible takeover by Malcolm Glazer, an American sports tycoon, who has recently upped his stake in the club to 29%. United's board feared that a debt-financed purchase was not in the club's interest.

Cingular success

Cingular Wireless concluded its $41 billion acquisition of **AT&T**'s mobile-phone arm days after regulators finally gave the go-ahead to a deal that will create America's biggest mobile operator, with over 46m subscribers. Cingular was required to sell assets in several markets in order to keep competitors happy.

See article

Motorola won an appeal in an American court that upheld a judgment against the Uzan family for perpetrating a “massive fraud” against the American mobile-phone manufacturers. The Uzans, one of

Turkey's richest families, helped themselves to loans from Motorola to Telsim, a large Turkish mobile-phone firm that they owned. They may be liable for $2.1 billion in punitive damages.

The European Union's antitrust authorities gave the go-ahead for a merger between **Oracle** and **PeopleSoft**. This removes the last regulatory obstacle to Oracle's hostile $7.7 billion bid for the rival American software firm.

America's Securities and Exchange Commission voted to regulate **hedge funds**. Fund managers will have to register with the commission and funds must allow scrutiny of their books.

Delta force

Shares in **Delta Air Lines** hit the sky, rising by 23% in a day. Fears that Delta was close to bankruptcy receded considerably after the carrier secured $600m in extra funding and talks with its pilots seemed to hold the promise of a deal on wage cuts.

ATA Airlines, America's tenth-largest carrier, filed for Chapter 11 bankruptcy protection after stiff competition from rival low-cost flyers forced down fares while fuel costs rose.

Oil-fired profits

Soaring oil prices propelled profits at **BP** to $3.9 billion in the third quarter. **Royal Dutch/Shell's** profits for the same period were even higher, at $5.4 billion. The oil firm also announced plans to merge its British and Dutch holding companies to improve transparency.

See article

The price of **oil** fell from its recent peak of over $55 a barrel after news that America's stocks had risen more than expected. Earlier, OPEC's president, Purnomo Yusgiantoro, urged America to release its strategic petroleum reserves to reduce prices. George Bush has said that the reserves would be deployed only after a severe supply disruption.

Losing confidence

Consumer confidence hit a seven-month low in America as the country prepares to go to the polls. The Conference Board's index fell for the third month in a row in October as concerns about jobs grew.

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America's next president

The incompetent or the incoherent?

Oct 28th 2004
From The Economist print edition

With a heavy heart, we think American readers should vote for John Kerry on November 2nd

YOU might have thought that, three years after a devastating terrorist attack on American soil, a period which has featured two wars, radical political and economic legislation, and an adjustment to one of the biggest stockmarket crashes in history, the campaign for the presidency would be an especially elevated and notable affair. If so, you would be wrong. This year's battle has been between two deeply flawed men: George Bush, who has been a radical, transforming president but who has never seemed truly up to the job, let alone his own ambitions for it; and John Kerry, who often seems to have made up his mind conclusively about something only once, and that was 30 years ago. But on November 2nd, Americans must make their choice, as must *The Economist*. It is far from an easy call, especially against the backdrop of a turbulent, dangerous world. But, on balance, our instinct is towards change rather than continuity: Mr Kerry, not Mr Bush.

Whenever we express a view of that sort, some readers are bound to protest that we, as a publication based in London, should not be poking our noses in other people's politics. Translated, this invariably means that protesters disagree with our choice. It may also, however, reflect a lack of awareness about our readership. *The Economist*'s weekly sales in the United States are about 450,000 copies, which is three times our British sale and roughly 45% of our worldwide total. All those American readers will now be pondering how to vote, or indeed whether to. Thus, as at every presidential election since 1980, we hope it may be useful for us to say how we would think about our vote—if we had one.

The case against George Bush

That decision cannot be separated from the terrible memory of September 11th, nor can it fail to begin as an evaluation of the way in which Mr Bush and his administration responded to that day. For Mr Bush's record during the past three years has been both inspiring and disturbing.

Mr Bush was inspiring in the way he reacted to the new world in which he, and America, found itself. He grasped the magnitude of the challenge well. His military response in Afghanistan was not the sort of poorly directed lashing out that Bill Clinton had used in 1998 after al-Qaeda destroyed two American embassies in east Africa: it was a resolute, measured effort, which was reassuringly sober about the likely length of the campaign against Osama bin Laden and the elusiveness of anything worth the name of victory. Mistakes were made, notably when at Tora Bora Mr bin Laden and other leaders probably escaped, and when following the war both America and its allies devoted insufficient military and financial resources to helping Afghanistan rebuild itself. But overall, the mission has achieved a lot: the Taliban were removed, al-Qaeda lost its training camps and its base, and Afghanistan has just held elections that bring cautious hope for the central government's future ability to bring stability and prosperity.

The biggest mistake, though, was one that will haunt America for years to come. It lay in dealing with prisoners-of-war by sending hundreds of them to the American base at Guantánamo Bay in Cuba, putting them in a legal limbo, outside the Geneva conventions and outside America's own legal system. That act reflected a genuinely difficult problem: that of having captured people of unknown status but many of whom probably did want to kill Americans, at a time when to set them free would have been politically controversial, to say the least. That difficulty cannot neutralise the damage caused by this decision,

however. Today, Guantánamo Bay offers constant evidence of America's hypocrisy, evidence that is disturbing for those who sympathise with it, cause-affirming for those who hate it. This administration, which claims to be fighting for justice, the rule of law and liberty, is incarcerating hundreds of people, whether innocent or guilty, without trial or access to legal representation. The White House's proposed remedy, namely military tribunals, merely compounds the problem.

When Mr Bush decided to frame his foreign policy in the sort of language and objectives previously associated with Woodrow Wilson, John Kennedy or Ronald Reagan, he was bound to be greeted with cynicism. Yet he was right to do so. To paraphrase a formula invented by his ally, Tony Blair, Mr Bush was promising to be “tough on terrorism, tough on the causes of terrorism”, and the latter he attributed to the lack of democracy, human rights and opportunity in much of the world, especially the Arab countries. To call for an effort to change that lamentable state of affairs was inspiring and surely correct. The credibility of the call was enhanced by this month's Afghan election, and may in future be enhanced by successful and free elections in Iraq. But that remains ahead, and meanwhile Mr Bush's credibility has been considerably undermined not just by Guantánamo but also by two big things: by the sheer incompetence and hubristic thinking evident in the way in which his team set about the rebuilding of Iraq, once Saddam Hussein's regime had been toppled; and by the abuses at Abu Ghraib prison in Iraq, which strengthened the suspicion that the mistreatment or even torture of prisoners was being condoned.

Invading Iraq was not a mistake. Although the intelligence about Saddam's weapons of mass destruction has been shown to have been flimsy and, with hindsight, wrong, Saddam's record of deception in the 12 years since the first Gulf war meant that it was right not to give him the benefit of the doubt. The containment scheme deployed around him was unsustainable and politically damaging: military bases in holy Saudi Arabia, sanctions that impoverished and even killed Iraqis and would have collapsed. But changing the regime so incompetently was a huge mistake. By having far too few soldiers to provide security and by failing to pay Saddam's remnant army, a task that was always going to be long and hard has been made much, much harder. Such incompetence is no mere detail: thousands of Iraqis have died as a result and hundreds of American soldiers. The eventual success of the mission, while still possible, has been put in unnecessary jeopardy. So has America's reputation in the Islamic world, both for effectiveness and for moral probity.

If Mr Bush had meanwhile been making progress elsewhere in the Middle East, such mistakes might have been neutralised. But he hasn't. Israel and Palestine remain in their bitter conflict, with America readily accusable of bias. In Iran the conservatives have become stronger and the country has moved closer to making nuclear weapons. Egypt, Syria and Saudi Arabia have not turned hostile, but neither have they been terribly supportive nor reform-minded. Libya's renunciation of WMD is the sole clear piece of progress.

This only makes the longer-term project more important, not less. To succeed, however, America needs a president capable of admitting to mistakes and of learning from them. Mr Bush has steadfastly refused to admit to anything: even after Abu Ghraib, when he had a perfect opportunity to dismiss Donald Rumsfeld, the defence secretary, and declare a new start, he chose not to. Instead, he treated the abuses as if they were a low-level, disciplinary issue. Can he learn from mistakes? The current approach in Iraq, of training Iraqi security forces and preparing for elections to establish an Iraqi government with popular support, certainly represents an improvement, although America still has too few troops. And no one knows, for example, whether Mr Rumsfeld will stay in his job, or go. In the end, one can do no more than guess about whether in a second term Mr Bush would prove more competent.

Making sense of John Kerry

That does at least place him on equal terms with his rival, Mr Kerry. With any challenger, voters have to make a leap of faith about what the new man might be like in office. What he says during the campaign is a poor guide: Mr Bush said in 2000 that America should be “a humble nation, but strong” and should eschew nation-building; Mr Clinton claimed in 1992 to want to confront “the butchers of Beijing” and to reflate the economy through public spending.

Like those two previous challengers, Mr Kerry has shaped many of his positions to contrast himself with the incumbent. That is par for the course. What is more disconcerting, however, is the way those positions have oscillated, even as the facts behind them have stayed the same. In the American system, given Congress's substantial role, presidents should primarily be chosen for their character, their qualities of leadership, for how they might be expected to deal with the crises that may confront them, abroad or

at home. Oscillation, even during an election campaign, is a worrying sign.

If the test is a domestic one, especially an economic crisis, Mr Kerry looks acceptable, however. His record and instincts are as a fiscal conservative, suggesting that he would rightly see future federal budget deficits as a threat. His circle of advisers includes the admirable Robert Rubin, formerly Mr Clinton's treasury secretary. His only big spending plan, on health care, would probably be killed by a Republican Congress. On trade, his position is more debatable: while an avowed free trader with a voting record in the Senate to confirm it, he has flirted with attacks on outsourcing this year and chosen a rank protectionist as his running-mate. He has not yet shown Mr Clinton's talent for advocacy on this issue, or any willingness to confront his rather protectionist party. Still, on social policy, Mr Kerry has a clear advantage: unlike Mr Bush he is not in hock to the Christian right. That will make him a more tolerant, less divisive figure on issues such as abortion, gay marriage and stem-cell research.

The biggest questions, though, must be about foreign policy, especially in the Middle East. That is where his oscillations are most unsettling. A war that he voted to authorise, and earlier this year claimed to support, he now describes as “a mistake”. On some occasions he claims to have been profoundly changed by September 11th and to be determined to seek out and destroy terrorists wherever they are hiding, and on others he has seemed to hark back to the old Clintonian view of terrorism as chiefly a question of law and order. He has failed to offer any set of overall objectives for American foreign policy, though perhaps he could hardly oppose Mr Bush's targets of democracy, human rights and liberty. But instead he has merely offered a different process: deeper thought, more consultation with allies.

So what is Mr Kerry's character? His voting record implies he is a vacillator, but that may be unfair, given the technical nature of many Senate votes. His oscillations this year imply that he is more of a ruthless opportunist. His military record suggests he can certainly be decisive when he has to be and his post-Vietnam campaign showed determination. His reputation for political comebacks and as a strong finisher in elections also indicates a degree of willpower that his flip-flopping otherwise belies.

The task ahead, and the man to fit it

In the end, the choice relies on a judgment about who will be better suited to meet the challenges America is likely to face during the next four years. Those challenges must include the probability of another big terrorist attack, in America or western Europe. They must include the need for a period of discipline in economic policy and for compromise on social policy, lest the nation become weak or divided in the face of danger. Above all, though, they include the need to make a success of the rebuilding of Iraq, as the key part of a broader effort to stabilise, modernise and, yes, democratise the Middle East.

Many readers, feeling that Mr Bush has the right vision in foreign policy even if he has made many mistakes, will conclude that the safest option is to leave him in office to finish the job he has started. If Mr Bush is re-elected, and uses a new team and a new approach to achieve that goal, and shakes off his fealty to an extreme minority, the religious right, then *The Economist* will wish him well. But our confidence in him has been shattered. We agree that his broad vision is the right one but we doubt whether Mr Bush is able to change or has sufficient credibility to succeed, especially in the Islamic world. Iraq's fledgling democracy, if it gets the chance to be born at all, will need support from its neighbours—or at least non-interference—if it is to survive. So will other efforts in the Middle East, particularly concerning Israel and Iran.

John Kerry says the war was a mistake, which is unfortunate if he is to be commander-in-chief of the soldiers charged with fighting it. But his plan for the next phase in Iraq is identical to Mr Bush's, which speaks well of his judgment. He has been forthright about the need to win in Iraq, rather than simply to get out, and will stand a chance of making a fresh start in the Israel-Palestine conflict and (though with even greater difficulty) with Iran. After three necessarily tumultuous and transformative years, this is a time for consolidation, for discipline and for repairing America's moral and practical authority. Furthermore, as Mr Bush has often said, there is a need in life for accountability. He has refused to impose it himself, and so voters should, in our view, impose it on him, given a viable alternative. John Kerry, for all the doubts about him, would be in a better position to carry on with America's great tasks.

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The Palestinians

After Arafat

Oct 28th 2004
From The Economist print edition

The Palestinians are approaching a moment of truth

Get article background

AP

HISTORY may judge him an arch-terrorist, a national hero or both. What nobody can deny is that for all the lip-service carefully paid to the outward forms of collective leadership, Yasser Arafat has never been one to share real power. All the Palestinians' big decisions—most fatefully his decision at the end of 2000 not to grab the peace compromise put together after the Camp David summit by then president Bill Clinton—were in the end his alone. For that reason, this week's sudden decline in his health cannot be seen only as a moment of crisis for the people of Palestine. Though they now face a troubling question—how will they remain united if their paramount leader dies?—they also have an opportunity. If he were to die, Mr Arafat's passing might be the event that frees them from the trap in which they have put themselves since the eruption four years ago of their second *intifada* against Israel.

On paper, the Palestinians have a plan of sorts for the succession (see article). But, thanks to the complicated tricks history has played on the Palestinians, nobody else can easily fill the vacuum Mr Arafat will leave behind.

Like the Jews, Palestinians are a dispersed people, divided into groups that want different things from peace. Some of the millions of people who feel Palestinian are citizens of Israel or Jordan. Others have endured nearly 40 years of Israeli occupation in the West Bank and Gaza. Still more are stateless refugees in Lebanon, Syria and beyond. Mr Arafat's singular achievement is to have become, for all of them, the personification of the Palestinian cause. But to do so he shied away from the hard decisions needed to end the conflict, such as accepting that in any peace based on sharing Palestine between a Jewish and an Arab state, the Palestinians displaced by Israel's founding nearly 60 years ago will never return.

One grim possibility on Mr Arafat's death is therefore that the divisions in Palestinian ranks will come to the fore, making the prospects for peace even worse. The hard-line Islamists of Hamas, already strong in the Gaza strip, may feel less constrained about mounting an open challenge to Mr Arafat's mainstream Fatah movement. On the West Bank, the lid may blow off a long-simmering generational struggle between the elderly ideologists who came home from exile in Tunis at the beginning of the 1990s and the younger and more pragmatic leaders who grew up under Israeli occupation and organised the first *intifada*. A Palestine at war with itself might then be even less able than it is at present to cut a deal with Israel.

There is, however, a brighter possibility. The death of Mr Arafat could at a stroke deprive Israel of the reason—some would say the excuse—it has given over the past two years for suspending negotiations with the Palestinian Authority. The Israelis have refused to talk peace with a man they accuse of encouraging and even conniving in the suicide bombers' mass murder of their civilians. If after Arafat the Palestinians rise to the occasion by producing a leadership able and willing to honour its ceasefire commitments under the international “road map”, this impasse might at last be broken—and the unilateral withdrawal that Ariel Sharon is planning from Gaza might then become connected to a negotiated agreement embracing the West Bank too. The world should do what it can to promote such an outcome. But a great deal now depends on the unity and pragmatism of the Palestinians themselves.

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The other big election

Watch Ukraine

Oct 28th 2004
From The Economist print edition

Its presidential election, too, could change the world

EPA

THE polls will open soon; the race remains too close to call; the nation is deeply divided; the campaigns are getting dirtier; there are fears of fraud; and the outcome will have far-reaching consequences for the global balance of power. But this is not the United States. On October 31st, Ukrainians too will vote. Their choice of president (though there will probably be a run-off three weeks hence) will be all but ignored in the frenzy surrounding America's ballot; but it should not be. While America's vote may shape relations between the West and the Middle East, Ukraine's will help map out not only the future shape of Europe but also the relationship between the West and another, colder East: Russia, and its former dominions.

Over the past year Russia has convinced most remaining doubters that its brief fling with liberal democracy is over. The gradual strangling of political freedoms, the war in Chechnya, the spiral of terrorism and the opposition's failure to offer something better have sunk the population into apathy and re-awakened the spectre of Soviet-era geopolitics. It is not the cold war, in which the Kremlin sought world domination, but a cold peace, in which Russia will deal with the West when it has to (on issues like trade, energy, weapons and peacekeeping) but wants no meddling in what it feels are its own affairs—including the countries in its sphere of influence, the region it revealingly terms its “near abroad” (see article).

One thing Ukraine's election will do is to define the size of that sphere. Since the Soviet Union broke up its members have followed varying paths. The small Baltic states escaped into Europe's gravitational field. Georgia more recently made a bid for freedom. Most of the other countries remain tightly bound to Russia both politically and economically.

Ukraine, however, now balances on the cusp between Russia and Europe. Though many of its 49m people speak Russian as their first or only language, even some of those are fed up with the cronyism of Leonid Kuchma's pro-Moscow regime, propped up by oligarchic business clans. At the polls they will choose between Victor Yanukovich, one of the clan leaders and Mr Kuchma's dauphin, and Victor Yushchenko, associated with the country's largely Ukrainian-speaking west, who wants to reform the economy, break the oligarchs' grip and forge closer ties to Europe and America.

People like us

Even if elected, Mr Yushchenko would struggle to do that; he has been flawed and indecisive as a prime minister and opposition leader. Vested interests, Russia especially, would put up a fight. But it would feel that it had “lost” Ukraine, one of Europe's biggest countries. It would become more defensive: expect new spats over American influence in the Caucasus and Central Asia. However, Ukraine's growing independence would curb Russia's ability to throw its weight around.

On ordinary Russians, meanwhile, a win for Mr Yushchenko might have an even bigger impact than on those sitting in the Kremlin. Despite 13 years of independence, Ukraine to many Russians is still little more than a Russian province. They do not need a foreign-travel passport to go there. They patronise Ukrainians as the English once did the Irish, as bumpkins and dolts who speak the language funny.

Yet next to Russia, bumpkin-land is starting to look attractive. Ukraine has a vibrant if muddled opposition, a somewhat freer press, a less oppressive secret police, no internal war and, as a result, no terrorism. If Mr Yushchenko wins, stays alive (he fell ill during the campaign in what looks suspiciously like poisoning) and manages to push reforms—all big ifs—then Russians might wonder why the same cannot happen at home. Ukraine's example could inspire political change in its neighbour, and hasten the melting of the cold peace.

The West should therefore not be shy about pushing for a clean election in Ukraine. Russia supports Mr Yanukovich both overtly and covertly. Europe and America should kick and scream about electoral irregularities and encourage Ukrainians to defend their own democracy.

And whoever wins, the West should offer Ukraine the incentives that Russia cannot, and support its ambitions to join NATO, the WTO and the EU. The EU, in particular, could do more to help Ukraine take the first steps towards that distant goal, for instance by lending advisers to help with the reforms that Ukraine would need to implement EU rules and open the door to more EU funding; it could even start discussing what until now has been off the agenda, a timetable and pathway to membership. Showing that Ukraine can escape the Soviet legacy will be a powerful argument against those who believe that Russia and its neighbours are condemned to it.

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Accounting for pensions

Time to end a scandal

Oct 28th 2004
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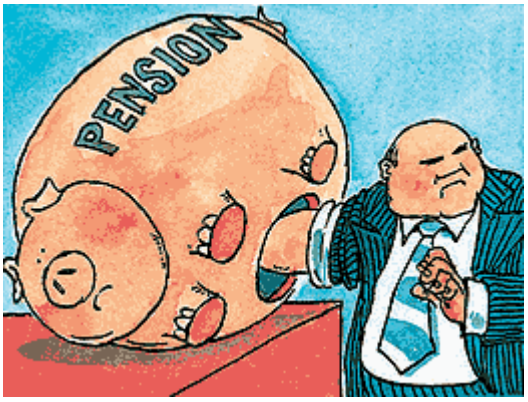
Companies should not be allowed to play accounting games with their pension funds



IN AN era of corporate scandals, one of the biggest has largely escaped attention. So it is good news that America's Securities and Exchange Commission (SEC) is finally taking a look at how some of America's biggest companies have been cynically exploiting the accounting rules that apply to their pension funds. This might seem an esoteric field. It is not immediately clear that much is at stake. In fact, literally billions of dollars have been conjured on to firms' balance sheets and profit and loss accounts in recent years, flattering reported earnings. Without manipulations of their pension accounts, industry icons such as IBM, General Motors and Boeing would have reported drastically worse financial results. By adopting grossly unrealistic return assumptions, many companies have grabbed pension “profits” that might never materialise and will have to be written off eventually (see article). If they had accounted for their pension obligations properly, it can be argued, many big firms might even be bankrupt.

The SEC wants to know exactly how pension-fund accounting has been used. The defined-benefit retirement funds of many big companies have huge deficits. But at the stroke of an actuary's pen a company can make heroic assumptions about the returns its pension assets will earn and so the rate at which its own liabilities will grow in future, allowing it to claim that the pension-deficit problem is manageable.

The problem is not just an American one. Defined-benefit funds are in trouble elsewhere as well because they represent future liabilities that are looking increasingly expensive to maintain. In Britain some companies have pension-fund deficits that are almost as big as their market value. In Europe many big companies face rising costs as their workforces age. And pretty much everywhere there is confusion.

Is there a better way to account for pensions? And how should pension funds be run to avoid problems in future? The two questions are intimately connected. A better accounting method should, by letting companies, shareholders and employees know the true state of affairs, lead directly to better all-round administration of pension funds. That would be reinforced if companies did their level best to ensure that their pension schemes are fully solvent—where would the incentive to play accounting games be then?

Short-term fixes, long-term solutions

That is why, as a first step, companies need to decide whether or not they are serious about keeping their pension “promises”, even if doing so proves expensive. Laws are being tightened to protect scheme members' benefits, but it is still too easy for companies to walk away, either by reducing benefits for future retirees or by off-loading liabilities on to a publicly backed insurance scheme such as America's Pension Benefit Guaranty Corporation or Britain's planned equivalent. Where firms have a genuine commitment to fund their schemes, they should be willing to offer an explicit “covenant”, if necessary giving the fund first call over some of the company's assets if there is an unexpected event that puts the fund, or the firm, in jeopardy. Some schemes with big deficits already have such pledges. Many more schemes could benefit from them.

Clarity about the covenant leads naturally to greater understanding of where a pension fund sits in the

overall structure of a company and its finances. A commitment to fund a scheme fully should mean a company's managers want it to be as risk-free as possible—there is no point in making contributions that are then frittered away. And the fund should never be seen as a convenient pot of cash. Once a company's contributions are handed over, the money belongs to the fund and its members. The fund's trustees (known as “fiduciaries” in America) are then responsible for managing assets prudently, and they will have to do so better in future.

But trustees are hampered if a company runs a big deficit. In effect, this means the pension fund is making a forced, unsecured loan back to the company, with no interest charges to reflect the concentration of risk the loan involves. And trustees are then often pressured to take ever bigger risks with the money they do have, in the hope that they can close the deficit and so discharge the company's obligation. Proper accounting rules, combined with reforms to strengthen trustees, would make both practices impossible. More and more pension professionals believe that funds should hold almost all of their assets tax-efficiently in the form of bonds because these best match the profile of future liabilities. Companies need to understand that this is in their interests too. If companies want to take a financial risk, the rules should oblige them to do it themselves, not foist the risk on to the pension fund.

If the SEC sets a ball rolling, so much the better. Accounting rules are clearly too lax. But there are other weak spots. The SEC and European regulators should call the actuarial profession to account. It is implicated in pension-accounting fiddles, because it has allowed firms far too much leeway on the assumptions they set. Actuaries have also ignored obvious conflicts of interest—for example, the same actuary often advises both a company and the trustees of its pension fund. This is wrong. The interests of the firm and the fund cannot always be the same. The pension fund, and the promises made to it by the company, belong to the employees, not the firm's managers or shareholders. That fact has been ignored for too long.

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Complexity

Keep it simple

Oct 28th 2004
From The Economist print edition

The ancient rule applies more than ever

"LIFE is really simple," said Confucius, "but we insist on making it complicated." *The Economist* agrees. Unfortunately, Confucius could not have guessed what lay ahead. The rate at which mankind makes life complicated seems ever to accelerate. This is a bad thing. So this newspaper wants be the first to lay down some new rules. Henceforth, genius will be measured not by how fancy, big or powerful somebody makes something, but by how simple.

Take, for instance, technology. The rich world is full of living rooms with video-cassette recorders whose clocks have been blinking at 00:00 for 20 years, because most of us can't figure out how to set the time, or can't be bothered. Computers, with their incomprehensible error messages, unannounced crashes and other eccentricities, are driving people to despair. Computer firms are at last beginning to understand that progress no longer means adding ever more useless features but cutting them, or at least hiding them, as our survey of the information-technology industry in this issue explains.

That leaves a lot of other bureaucracies and industries. The taxman, for instance. In most countries, when people fight over the tax burden on citizens, they mostly mean the tax rate. But surely the cost of the systems' sheer complexity is also considerable. Every new zone, haven, credit, incentive, break and loophole adds grams, if not kilograms, to the paperwork. Some countries' tax forms now top "War and Peace" by weight. This not only consumes enormous amounts of time and attention from some of the smartest people on the planet—surely a waste—it is also a crashing bore.

And complexity can kill. In today's world falling sick after moving house or while travelling can prove fatal, even if you can afford medical care. The intricacy of transferring patient records between hospitals—let alone between countries—would be comical, if it were not also tragic. How many people, one wonders, die of drug interactions because the doctors treating them cannot get the needed information in time?

A less threatening but more common headache is pricing plans. We know of nobody who is prepared to swear that he understands whether he is getting a good or bad deal from his mobile-phone operator. One could build a spreadsheet to calculate the minutes talked off-peak, on-peak, in-plan, out-of-plan and whatever other formulas consumers are forced to choose from. But then there would be no time left for talking.

There are other culprits. Why have plumbers foisted on the British two water taps, for either scalding or freezing, when one would do? In food, is it any wonder that the elaborate concoctions of France are losing out to the simple genius of Italy and Japan? The healthiest buildings and interiors, according to ancient Chinese principles of *feng shui*, are those that have no clutter, because clutter, which is complexity by another name, deadens the energy in a house.

It does the same to the human mind. Convoluted and highfalutin' language obscures good thoughts, which is a pity. The Plain English Campaign, a British pressure group that fights "against jargon and gobbledegook", especially in official documents, has the right idea, as do the Germans who are pushing for *Rechtschreibreform* (as complex as that sounds).

Hence our call to action. Simplify! We are not suggesting dumbing down, or making anything simple but wrong. Instead we want what Albert Einstein advocated: “Everything should be made as simple as possible, but not simpler.”

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Letters

Oct 28th 2004
From The Economist print edition

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Treating cancer

SIR – Your article on cancer therapies misses an important point ("Beating cancer", October 16th). You assert that cancer will be treated in an individualised fashion, probably with a cocktail of small molecules tailored to match the several mutations present in particular sorts of tumour.

While this is certainly a possibility, it is overly optimistic to say that all cancers can be treated this way. You do not distinguish the two basic types of mutation: gain-of-function and loss-of-function. The former make an inviting "drug target", as all you have to do is shut them off. Yet many mutations switch off genes or make products that do nothing at all. No drug will cause a faulty gene to regain its normal function. There is therefore no drug target. While oncology research is more productive now than at any other time, I fear that we will lose loved ones to cancer for the foreseeable future.

Charles Mikell
New York

SIR – Recent breakthroughs in the understanding of cancer and its treatment are exciting and, with luck, will lead to less suffering for many. However, as you say, the crux of the matter is lifestyle. The American Cancer Society identifies over two-thirds of cancers in the country to be related to smoking, overeating and under-exercising, or alcohol. What we need is more research into how to help us make decent decisions about our health and environment. This would be far more cost-effective than letting people get cancer and then curing it.

Mary Kay O'Neill
Associate medical director
Health Care Authority of Washington State
Seattle

Selling America

SIR – Your article on McDonald's fails to mention one of the main reasons the company is so disliked around the world: the restaurant frontages ("Big Mac's makeover", October 16th). The garish red and yellow fascias that deface the old city squares of central Europe send out an uncompromising message of American cultural imperialism. A little effort spent on fitting more sensitively into different environments would do wonders for the image of McDonald's, and that of America too.

David Lindsay
London

In want of a leader

SIR – You are right that "Palestinian leaders have every reason to show the world that [Ariel] Sharon is wrong when he keeps on saying that Israel has no responsible partner on the other side" ("Israel's unlikely dove", October 23rd). But will they? You scrutinise Mr Sharon's motives, putting the onus for the stalled peace process on Israel without addressing the vacuum of Palestinian leadership plaguing the process. Am I missing something, or is there no Palestinian leader today ready to forswear terrorism and pursue a peaceful two-state settlement based on the principle of mutual compromise? Mr Sharon's

actions should not be examined alone. The real issue is whether a Palestinian leader can emerge who has the will to fight violence, marginalise the duplicitous Yasser Arafat and guide his people to a brighter future.

David Harris
American Jewish Committee
New York

A small price to pay

SIR – You jump the gun on Myanmar ("Face-off", October 16th). The European Union decided to oppose lending by international institutions to Myanmar for the present, while the continued financing of oil and gas projects—in deference to France's Total—will not be affected because such projects are seen not as investments but as production-sharing contracts. As no firm in the EU currently has any stake in a state-owned company in Myanmar, it is difficult to see that the ban on financing such firms will have much effect. So you are left with a visa ban on senior military officers, few of whom want to visit the EU in any case when they and their wives can get all they want in Bangkok, Singapore and Hong Kong. All in all, it is rather a damp squib.

Derek Tonkin
Guildford, Surrey

Few fans of Clarkson

SIR – Adrienne Clarkson is "popular" and "much-loved" ("Madame Canada", October 9th)? Surely you jest, or have listened once too often to the CBC, our state-run radio and one-time employer of the aloof governor-general. In fact, most Canadians find her pompous, extravagant and out of touch. She is famous for her lavish trips (hence the parliamentary review of her budget) and her gaudy wardrobe is a source of some humour. So is her self-proclaimed philosopher husband, who has indeed authored some "bad books".

So why retain her for another year? This has nothing to do with Ms Clarkson's popularity and everything to do with the prime minister's penchant for dithering. A year-long extension precludes the need to make a decision.

M. Mitchell
Vancouver

Emitting hot air

SIR – You list a number of reasons why adoption of the Kyoto treaty may not harm Europe's competitiveness ("Welcome to Kyoto-land", October 9th). Another benefit is to deflect the coming climate-change lawsuits. As the evidence linking carbon dioxide emissions to climate damage piles up, can these legal cases be far behind? Over the next decades, the suits filed against carbon-dioxide polluters will make the tobacco lawsuits look puny. And why should they not—climate change is the most expensive case of wilful property damage in all history.

Tom Yurkiw
Toronto

SIR – You say that the air and water of America is cleaner now than in 1970 and therefore conclude that our environment is in good shape. Our air is only cleaner if you, like George Bush and unlike every legitimate atmospheric scientist, do not consider excess carbon dioxide as a pollutant.

Lou Zeidberg
Monterey, California

SIR – I note a misplaced penchant for free markets in your article. When you praise emissions-trading markets, I see not a beautiful application of free-market theory but rather a monster of bureaucracy and civil servants.

Frederic Humbert

Northampton

Love it or hate it

SIR – It is good to see the scourge of malaria addressed in your newspaper ("Biting back", October 16th). There is a folk remedy among British travellers that should perhaps get an airing. Marmite, a yeast extract that is a by-product from beer brewing and a traditional sandwich spread for British children, is widely thought to fend off the attention of mosquitoes. Apparently it causes the skin to give off a scent that the insects dislike. It is one of those things that some people have believed for decades but it never gets properly tested. It has echoes of the Jesuits and their jealous guarding of the secret of quinine in the 17th century. Maybe it is time to share, to test and to exploit for the weakest and the poorest?

Ben Coomb
Leeds

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Ukraine, Belarus and Russia

On the border and on the brink

Oct 28th 2004 | KIEV, MINSK AND MOSCOW
From The Economist print edition

Reuters

A thrilling election in Ukraine, a sad referendum in Belarus, and what they mean for Russia and the West

“TAKE at look at me,” says Victor Yushchenko, when asked about the mysterious illness that almost killed him last month—an illness, he believes, brought on by deliberate poisoning. His eyes peer out from a bloated, pock-marked, barely recognisable face. “I am absolutely convinced”, Mr Yushchenko says, “that I managed to survive an assassination attempt on my life.”

Damaged as he is, Mr Yushchenko may yet become Ukraine's next president. He has returned to the campaign trail ahead of the first round of voting on October 31st, exhilarating thousands of Ukrainians at mass rallies with his promises to fight corruption and uphold the rule of law. Their fervour, and the determination of Mr Yushchenko's opponents, are understandable. For the first time in Ukraine, real democracy is close enough to touch.

Since 1991, when Boris Yeltsin and the leaders of the two most “russified” Soviet republics, Ukraine and Belarus, together dissolved the Soviet Union, each of their countries has disappointed those who expected democracy to flourish in the rubble of communism. Belarus—squeezed, like Ukraine, between an expanded European Union and Russia—has for ten years been governed by Alexander Lukashenka, a capricious autocrat. After Mr Lukashenka's “victory” in a rigged referendum on October 17th, Belarus may have to endure another ten years of him, or more. Russia has experienced the volatility of Mr Yeltsin, and now the crescent authoritarianism of Vladimir Putin. Ukraine, meanwhile, has had ten years of corruption under Leonid Kuchma, its current president. If it now manages to stage fair presidential elections, the repercussions could spill across its eastern and northern borders.

Meet the candidates

According to Mr Yushchenko's supporters, and those of Victor Yanukovich, his main rival, Ukraine faces a choice of Manichean simplicity and dreadful consequence. Mr Yushchenko's team portrays him as an economic reformer, who, during a brief stint as prime minister in 1999-01, managed to reverse his country's economic decline, which had been even more precipitous than that of most other ex-Soviet states. Ukraine's economy suffered from many of the same ailments as Russia's: corruption, suffocating bureaucracy, unreliable courts and capital flight. Salaries and pensions were paid late; the population and life expectancy declined; villages emptied as young people went west to find work. Away from the

glamour of downtown Kiev, much of the country is still painfully poor, and its middle class is small. But, so the story goes, Mr Yushchenko laid the foundations for the growth, and more reliable social security, of the past four years.

More than that, Mr Yushchenko presents himself as the champion of transparency and the rule of law, and the nemesis of corruption—which, under Mr Kuchma, has become brazen even by Russian standards. For example, Mr Yushchenko says he will review the privatisation of a steelworks that was sold earlier this year at half its market value to the country's two richest men, one of whom, Victor Pinchuk, is Mr Kuchma's son-in-law.

According to Mr Yushchenko's team, Mr Yanukovich, who is the current prime minister—the 11th since independence—is a creature of the corrupt current administration and of the oligarchs. Mr Yanukovich's two criminal convictions, rumours of other malfeasance and his occasional, infelicitous use of prison slang do not burnish his image. But, says Serhiy Tihipko, chairman of Mr Yanukovich's campaign, “There are actions, and there is talk.” Mr Tihipko points to the introduction, during his candidate's premiership, of a flat income-tax rate of 13%, which has helped to draw previously untaxed incomes into the legal economy. Pensions and other social benefits have risen (though how affordably remains to be seen). A privatisation review, says Mr Tihipko, would not be in the national interest.

During the campaign, Mr Yanukovich has appealed to the Russian-speaking population of east Ukraine by proposing to make Russian the second official language and to introduce dual Ukrainian-Russian nationality. This has helped to create an impression that, as president, he would be even more Moscow-friendly than Mr Kuchma has been. But Mr Tihipko insists that Mr Yanukovich's foreign policy would be “pragmatic”. Meanwhile, Mr Yushchenko's opponents characterise him as an extreme nationalist, intent on favouring the Ukrainian-speaking west of the country. Anti-Yushchenko propaganda also portrays him as an American stooge (“Bushchenko”)—an odd slur, given his pledge to bring home Ukraine's peacekeeping contingent in Iraq.

Milking two cows

But the choice, and its consequences, are not quite that stark. Some, such as Olexandr Moroz, a socialist leader who is also running for president, criticise Mr Yushchenko for failing to take a stern line with Mr Kuchma over the alleged government murder of a journalist in 2000. That casts doubt on the boldness of his leadership. A few shady characters lurk round him, too.

Then there is the Verkhovna Rada, Ukraine's fractious, juvenile parliament, which would prevent both candidates doing some of the things they are promising. Whereas those Russian oligarchs who are not either in jail or in exile now tend to keep tactfully shtum about the government, in Ukraine many of the oligarchs are in parliament (which, among other advantages, provides them with immunity). Parties are born and die, marry and divorce, with such frequency that any president will find sustained reform difficult.

EPA

Was Yushchenko poisoned?

And Ukraine's links with Russia—cultural, religious, historical and linguistic—are too profound to be casually severed. If Mr Yushchenko wins, the United States and the European Union will be friendlier towards his country; so too, probably, will western investors. But good will has its limits, and EU membership will remain a distant prospect for Ukraine whoever is its president. Given its handy location on the Black Sea and close to the unstable Caucasus, NATO membership may be more attainable. For his part, as Hryhoriy Nemyria, of Kiev's Centre for European and International Studies, puts it, Mr Yanukovich would probably “continue a strategy of milking two cows”: cosying up to Moscow, without disavowing the long-term goal of European integration.

All the same, a win for Mr Yushchenko would be a symbolic vote for change, however thwarted and incremental. That is enough to worry Russia, which has more or less openly supported Mr Yanukovich. Mr Putin received the prime minister, along with Mr Kuchma, in Moscow earlier this month. He is also visiting Ukraine just before the election, ostensibly to observe a parade commemorating Kiev's liberation from the Nazis. His trip has included a television appearance, in which he praised Mr Yanukovich's economic

record and promised closer links.

Why is Mr Putin so exercised? Partly because of Russia's business interests in Ukraine; partly because of Russia's naval base in the Crimea, and worries about what might happen to it if Ukraine really did join NATO. But mainly because of post-Soviet neuroses that can seem just as murky as the labyrinthine cross-border energy deals that have lined the pockets of both Russian and Ukrainian officials.

Many Russians feel humiliated by the diminution of the country's stature since the Soviet Union's collapse, especially by the West's intrusions into, and influence over, the ex-Soviet nations of central Asia, as well as the Baltics. On Mr Putin's watch, the Russian “sphere of influence” has already shrunk with the “loss” of Georgia. This sense of grievance helps to explain Russia's illogical support for tin-pot separatist regimes in South Ossetia and Abkhazia, two breakaway regions of Georgia, and the last vestiges of its territorial empire that Russia has yet to fully relinquish.

For Russia's *derzhavniki* (great-power nationalists), loss of influence over Ukraine—so close at hand, with its large ethnic Russian population and its Slavic heritage—would mean that Russia had forfeited all claim to greatness. As one senior western diplomat in Kiev bluntly puts it, “You don't have a Russian empire with a democratic Ukraine.” For such Russians, western talk about the virtues of democracy is just a cover for the real goal: to push Europe's border eastwards yet again.

Will Mr Putin get his man, and his way? Given the dubiousness of Ukrainian opinion polls, the reluctance of many voters to admit their true intentions and the large number of undecideds, it is hard to say. Almost certainly, the two Victors will advance to a second-round run-off, which is scheduled for November 21st. The outcome of that would largely depend on how the votes cast for other candidates are redistributed, in particular those for the communist and for Mr Moroz, the socialist. Mr Moroz says that, should he not make it to the run-off himself, he will definitely not support Mr Yanukovich—but he may not support Mr Yushchenko, either.

A mystery plague and a curious egg

All this assumes, however, that the election will be decided by a fair count. In a campaign already notorious for the alleged poisoning of the main candidate, this looks optimistic. Whatever the cause of his horrible disfigurement—his exotic diet, say his opponents—the blight cost Mr Yushchenko several weeks of on-the-ground campaigning. That was a particularly cruel blow to him, since almost all Ukraine's television stations are controlled either by the state—by Viktor Medvedchuk, the head of the current presidential administration— or by Mr Pinchuk, and their coverage is skewed in favour of Mr Yanukovich. Meanwhile, a television station largely owned by Petro Poroshenko, one of Mr Yushchenko's closest aides, has been harassed.

After the “poisoning”, there followed a bizarre incident in the western town of Ivano-Frankivsk, in which Mr Yanukovich, who is not a small man, was struck by an egg and crumpled to the ground as if pole-axed. The rumour is that he was expecting a staged assassination attempt, which a teenage egg-thrower pre-empted. Other shenanigans have been less comic: bombs have allegedly been planted in the offices of a pro-democracy student movement (“terrorists”, say the authorities). State employees have been bullied to support Mr Yanukovich. Opposition meetings have been disrupted.

AFP

Mr Yushchenko maintains that plans for large-scale falsification of the vote are already in train, and that they involve, among other things, stitched-up local electoral commissions, thousands of “dead souls” (deceased voters who have not been removed from the ballots), and fraud at the polling stations that have been set up for Ukrainians in Russia.

But any sort of peaceful transfer of power would be preferable to the still more sinister possibilities he and others are anticipating. The parade in

Suppressed in Minsk

Kiev, which is taking place nine days before the actual date of the city's liberation, is thought by some to be a pretext for bringing large military units to the capital. Bus-loads of criminals and miners from eastern Ukraine are also said to be en route to create havoc in Kiev—and thus justify the annulment of the elections or the declaration of a state of emergency by Mr Kuchma.

According to this view, Mr Medvedchuk and his oligarchic friends do not trust Mr Yanukovich, who is backed by a rival oligarchic clan. They will thus find a way for Mr Kuchma to remain in power, install a more pliant replacement, or perhaps dilute the powers of the presidency through constitutional reform. “For this kind of people”, claims Mr Poroshenko, “this is a war, not a competition.” Mr Yanukovich's supporters, meanwhile, allege that the opposition is planning a “chestnut revolution” (named for the trees that line Kiev's main drag), along the lines of the “rose revolution” in Georgia last year. They also say that it will not succeed: “Ukraine is not Georgia,” says Mr Tihipko, firmly.

He is probably right. History has inculcated a certain resigned patience among Ukrainians. Like the other lands between the Baltic and the Black Sea, Ukraine has suffered 700 years of invasion and conquest, from the Mongols to the Nazis. Parts of western Ukraine were incorporated into its territory only in 1945; the Crimea was added in 1954. Until 1991, it had never been an independent state.

Sitting on the nail

The history of Belarus, to the north, has been if anything still more traumatic, and its political culture is still more quietist. In a joke Belarussians tell about themselves, a Russian, a Ukrainian and a Belarussian catch a train together, only to find nails sticking up from their allotted seats. The Russian throws the nail out of the window. The Ukrainian pulls it out and takes it home. The Belarussian assumes that it must be there for a reason, and so sits on it placidly. After centuries of domination by either the Lithuanians, Poles or Russians, ruination during the second world war and decimation by Stalin, the nail Belarus has been sitting on since 1994 is Alexander Lukashenka.

Mr Lukashenka's rigged referendum on October 17th gave him the right to change his country's constitution and stand for a third presidential term in 2006. He has already extended his tenure once, and neutered and suborned Belarus's parliament. It is hard, in fact, to see why he bothers with elections. Like Mr Kuchma, Mr Lukashenka has reason to worry about his future, and his freedom, should he ever step down; unlike Mr Kuchma, who could have stood for president again but hasn't, Mr Lukashenka is unlikely to go voluntarily.

Yet the opposition in Belarus commands nothing like the support that Mr Yushchenko can muster in Ukraine. A pre-referendum rally in Minsk, the capital, was attended by only a few hundred people. A few brave students waved the nationalist flag of Belarus that Mr Lukashenka has replaced with a Soviet-era one. Slightly bigger protests held in Minsk after the referendum were brutally broken up by the police. Anatoly Lebedko, an opposition leader, was beaten unconscious.

That sort of treatment helps to explain why Belarussians prefer grumbling in their kitchens to demonstrating on the streets. Human-rights groups and independent newspapers are routinely closed down and persecuted by the tax authorities (which are also deployed against political troublemakers in Ukraine). Recently, even a university was closed. Fear of being sacked is also a powerful deterrent to protest, since the Soviet-style economy offers few alternatives to working for a state-owned enterprise.

But the uncomfortable truth for Mr Lukashenka's western critics is that, though not so popular as his phoney referendum result suggests, he is still well-liked. Away from Minsk, with its daunting monumentalist architecture and preternaturally clean streets, Belarus is a poor country. But Mr Lukashenka has seen to it that state salaries and the pensions of rural *babushkas* are paid on time, even managing modest increases. Mr Lebedko hopes that silent legions of the president's critics will one day realise they are not alone; but he may wait in vain.

Lessons from Lukashenka

Belarus is a smaller and less pivotal country than Ukraine. The human-rights situation there is grim, though not as bad as that in some other countries of the world. Yet for two reasons, the West cannot ignore the antics of its tragicomic president.

The first is that Mr Lukashenka's Belarus is also part of Russia's buffer against western encroachment. The prospect of a full union between Belarus and Russia has receded, as relations have soured between Mr Lukashenka and Mr Putin. Mr Lukashenka's shameless abuses and anti-western rants are embarrassing. But, for Mr Putin, Mr Lukashenka is a useful idiot, if an exasperating one, and Russia continues to subsidise him with cheap energy sales.

The more important reason is the influence that little Belarus could be exerting on mighty Russia. Liberals in Ukraine fear that if Mr Yushchenko loses the election, their country will increasingly resemble Mr Putin's Russia. Liberals in Russia, meanwhile, fear that, under Mr Putin, their country will increasingly resemble Mr Lukashenka's Belarus. Witness, so the argument runs, Mr Putin's plan to appoint regional governors and his moves to recover the state's control over the economy and subdue the oligarchs (a class that has not prospered in Belarus). Rumours are also swirling in Moscow that Mr Putin may try to emulate Mr Lukashenka and, one way or another, stay in power beyond his second presidential term (though in his television appearance this week, Mr Putin hinted that he wouldn't).

Therein lies the other reason why the symbolism of Ukraine's election is so important: its outcome will help to define not just the borders of the shadow Russian empire, but will help to shape the prospects for democracy within Russia itself. A legitimate election, says that senior western diplomat in Kiev, will have a “very positive impact on all of its neighbours—including the big guy—in terms of democratic development”. A properly democratic Ukraine would offer Russia a different model to emulate.

Mr Yushchenko rightly wants the international election observers who are pouring into Ukraine not to be “deaf and dumb” about electoral violations, and says that “the entire world should demonstrate its solidarity” by refusing to recognise an illegitimate president, should one be installed. So they should. But even if that happens this time, Ukraine is too lively, too European, not to get its democracy sooner or later. Russia, on the other hand, is a different story.

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The presidential election

Into the final straight

Oct 28th 2004 | WASHINGTON, DC
From The Economist print edition

AFP

A close finish is in prospect. The key to success may lie with the new voters both parties have tried to draw into the contest

ELECTIONS are not only about choosing a leader. They are also giant report cards on the health of a nation's democracy. With one important exception, 2004 suggests American presidential politics are in better shape than in the recent past. That may seem an optimistic judgment at the end of a campaign that has seen both candidates distorting each other's record repeatedly. But consider some evidence of rude health.

This is the first presidential election since 1972 to take place at a time of war, and the first since the terrorist attacks of September 2001. As the illness this week of Chief Justice William Rehnquist showed—he has thyroid cancer—this is also likely to be the last presidential election with the current bench of the Supreme Court and the last before baby boomers start to draw their state pensions.

Voters are responding enthusiastically to the high stakes. Virtually everyone (96%) who replied to a poll by the Pew Research Centre said they thought the election was important. According to a *Newsweek* survey, over a third of Democratic voters called it the most important of their lifetimes. The three presidential debates drew a total of 160m viewers, almost 40m more than had watched the ones in 2000 between George Bush and Al Gore.

There has been a flood of new voter registrations. Florida's electoral rolls have risen by 1.5m voters, or nearly a fifth. Ohio's are up 8% (more remarkable because its population has not grown). Iowa has seen a 100-fold increase in new registrations compared with the 2000 election. There has also been unprecedented interest in absentee ballots and early voting, which is now permitted in 35 states. Last time, 15% of Americans voted early. This time it could be 25%.

Curtis Gans of the Committee for the Study of the American Electorate forecasts that 118m-121m people could vote this time. That is 60% of eligible voters, compared with 54% in 2000 and the dismal 51% in 1996. The top end of that forecast would give the 2004 election the highest turnout for 36 years.

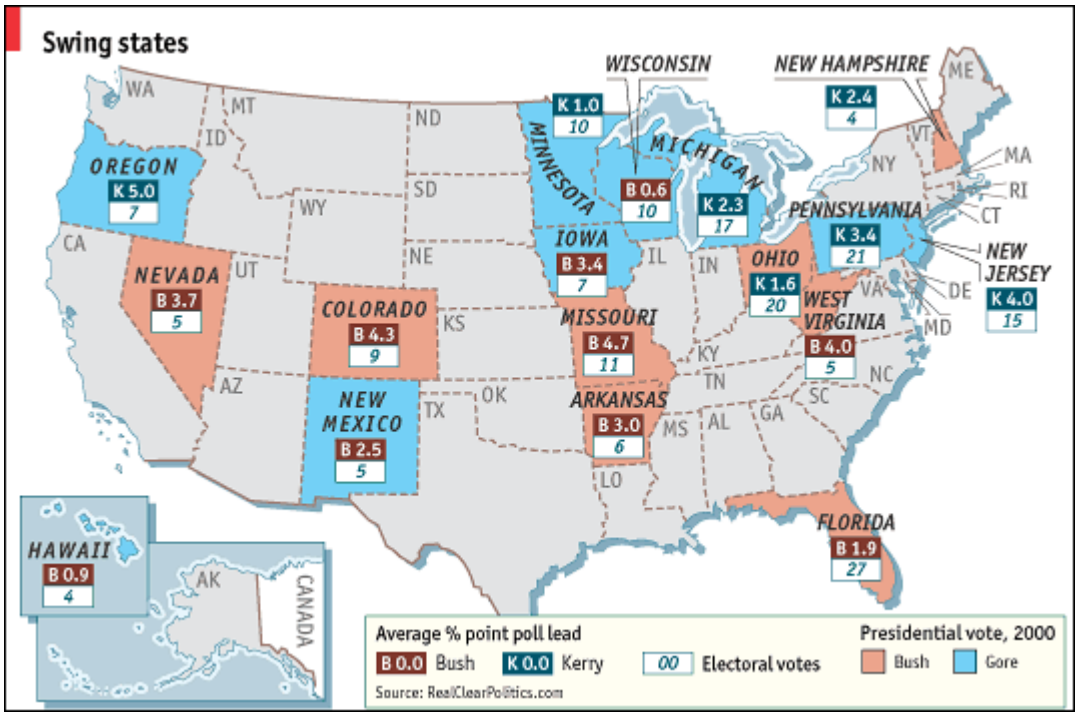
Clearly, there is a “new electorate” of around 15m people (compared with 2000). That seems good for American democracy. Is it also good for one candidate, rather than the other? With Mr Bush and John

Kerry both attracting around 90% of their party faithful, new voters could determine the outcome next week.

It is impossible to tell from voter rolls which side has done the better job of signing up supporters. Both have poured money into voter-registration drives, the Republican Party through its own efforts, the Democrats through supposedly independent but actually Democratic “527” groups (named after a loophole in the tax code). Many states do not require voters to identify their party allegiance. In those that do, Republicans did better in Florida and Colorado, Democrats narrowed the Republicans' advantage in Iowa and South Dakota. In most states, though, the largest increase came from voters registering as independents (up 40% in Florida).

But if you break down the electorate into the groups which campaigns have focused on, you can see straws in the wind. In the 2000 election, Karl Rove, Mr Bush's chief campaign adviser, argued that Republicans lost around 4m evangelical Protestants who could have voted for the president but stayed home. Mr Bush still has 70% of the white evangelical Protestant vote, according to Pew (noticeably lower than the 80% of the “religious right” he won in 2000 but that may be explained by the changing definition). The question, though, is whether there really are 4m extra evangelical votes.

The University of Akron's John Green, an acknowledged expert on the religious vote, has long argued that the figure of 4m is too high. Last time, evangelicals voted in the same proportion as voters overall. This time, their numbers seem likely to rise; what is not so clear is whether they will rise faster than the electorate as a whole.



Blacks are as reliable a voting block for Democrats as evangelical Protestants have been for Republicans. A survey by the Joint Centre for Political and Economic Studies, a think-tank on black issues, put Mr Bush's level of support among blacks at 18%—double his share of the black vote in 2000. Even though other polls do not show the same leap, there is evidence that Mr Kerry has been failing to mobilise African Americans.

One explanation is that blacks have so far been less than enthusiastic about Mr Kerry, but as voting day nears they are returning home. Bill Clinton's appearance on the hustings will speed that process up (he is wildly popular among African-Americans), but whether Mr Kerry can produce the same high turnout that Mr Gore got seems doubtful. If he can, though, this would make a big difference in the battleground states, where things are neck and neck (see map). Tony Fabrizio, a Republican pollster, calculates that if Mr Kerry can equal the 2000 turnout among blacks, he would win by 3.5 percent points in the swing states.

Republicans had hoped to make inroads into the other minority group that votes Democratic: Latinos. Their turnout will certainly rise with their increasing share of the population. In 2000, 1.1m voted in Florida and three south-western battleground states (Arizona, Nevada and New Mexico). The National

Association of Latino Elected and Appointed Officials reckons that will grow by 282,000.

Hispanics are becoming more like swing voters; their Democratic affiliation has dropped slightly from 48% in 1999 to 45% now. So far, though, Republicans do not seem to have taken advantage, partly because of heavy Spanish-language advertising by groups such as the New Democrat Network. Mr Gore won the Hispanic vote by 62% to 35%. Most polls give Mr Kerry a slightly larger 2-to-1 lead.

Both parties have focused a lot on voters under 30, whose turnout is usually feeble. Here, at least, Mr Kerry seems to have an edge. A poll by Harvard University found college students splitting 52% to 39% for the Democrat. A Pew poll showed him ahead by 47% to 44% among the under-30s.

But the big question concerns undecided voters. Democrats point out that they usually break for the challenger at the last minute. Republicans argue that, this time, they either will not vote, or, if they do, will not risk changing commanders-in-chief in mid-war.

In an attempt to try to answer these questions, YouGov, a British polling firm that has been conducting internet-based surveys for *The Economist*, went back to 875 registered, undecided voters within the panel of more than 10,000 voters it has been polling this summer and asked them again about their intentions. Surprisingly, roughly the same number of undecideds said they would be happy or relieved if Mr Bush won as said that about a Kerry victory. That seems to support the Republican contention that undecided voters will not break for the challenger this time.

But look at how people have changed over the course of the campaign, and only 3% have switched from Mr Bush to Mr Kerry, and 3% vice versa, so there are hardly any real swing voters. But 9% have gone from undecided (or Ralph Nader) to the main candidates—and Mr Kerry has so far taken those by two to one, which helps explain why he has built up a four-point lead in YouGov's weekly poll.

One of the great puzzles about this election is that it has remained so close. Almost every election that has taken place during war time, or when voters have been engaged and passions high, has produced a clear result. A Gallup poll this week showed Mr Bush with a clear five-point lead, but virtually all the other polls show only a couple of percentage points in it.

A decisive victory is still possible, if one part of the new electorate turns out in greater numbers than the rest. Such a result would be desirable, as well as possible. So far, the 2004 presidential election shows a broadly healthy democracy; but that judgment would need to be revised if its result is contested. As the next story shows, tens of thousands of lawyers are already spread out across the country. Get-out-the-vote operations sometimes seem like a dark art of politics. But almost anything would be better than having the result, for a second time, determined in court.

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The lawyers gather

Worse than last time?

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Get ready for a slew of electoral lawsuits

COMBINE a tight election, millions of newly registered voters, confusion about new electoral procedures and a heavy dose of partisan passion—and you have a recipe for plenty of election-day wrangling. The Democrats claim to have 10,000 lawyers ready in the battleground states, while Republicans will be posting lawyers in 30,000 precincts. States are already mired in unprecedented numbers of legal battles over voting.

At worst, this means that a second consecutive election may be decided in the courts, with potentially dire consequences for the legitimacy of the electoral system. But even if the legal battles do not affect the result, the risk is that a deluge of post-polling lawsuits will become a permanent part of America's political landscape.

The shrillest cries on both sides have come over fraud and intimidation. Thanks largely to the leftish “527” organisations, millions of new voters have been signed up, particularly in poor, minority neighbourhoods that tend to vote Democrat. Republicans fret about fraud—not surprisingly, when a Colorado man admitted registering to vote 35 times and an Ohio man was paid in crack cocaine to register people with names such as “Mary Poppins” and “Dick Tracy”. They have promised that their armies of “observers” (aka, lawyers) will challenge voters whose eligibility they deem dubious at the polls.

Democrats fear voter intimidation and wilful efforts to slow down voting in poor neighbourhoods, and are determined to fight back. “If no signs of intimidation have emerged yet, launch a pre-emptive strike,” urges a Democratic Party manual.

Another source of problems is uncertainty surrounding provisional ballots. After various clerical mistakes in voting registers meant at least 1.5m eligible voters' ballots were not counted in 2000, Congress passed the “Help America Vote Act” in 2002. This mandated the use of provisional ballots across the country. All voters have the right to cast a provisional ballot if their name does not show up on the electoral rolls. These ballots are set aside for counting after the election, provided that the voter's registration can be verified.

But the new law was vague about the rules for determining whether a provisional vote should be counted. In 28 states election officials have ruled that the ballot is eligible only if cast in the voter's correct precinct, while 17 states allow provisional ballots to be counted if they are cast in the correct district or county. (The law does not apply in five states that allow election-day registration.) Democrats prefer the looser set of rules, saying that poor and minority voters, who tend to change addresses more often, are more likely to go to the wrong precinct to vote.

Legal battles are already raging in several states. In both Ohio and Michigan, the (Republican) election official in charge declared that votes cast in the wrong precinct would not be counted. Democrats sued and, in both cases, a federal judge upheld their complaint. Republicans appealed and, this week, the 6th District Federal Circuit Court of Appeals ruled in favour of the election officials' narrow interpretation of the law. If the election is close, expect many more lawsuits.

The list of disputes goes much further. Pennsylvania has a court battle over whether election officials have given overseas voters enough time to cast their ballots. In Florida, one judge has ruled that election officials do not have to process voter-registration forms where people fail to tick a citizenship box, and another judge has ruled that electronic voting machines do not have to leave a paper trail. Both decisions will be contested.

No election system is perfect. But America's has two unappealing characteristics: wide disparities in the basic machinery and procedures for voting (some 20m Americans will still be using the infamous punch-cards), and partisan state officials in charge of the process.

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The electoral week

On the trail

Oct 28th 2004
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It's Halloween

“Initiation rituals involve morbid admission of personal sexual experiences and coerced displays of sophomoric masochism and mystical mumbo-jumbo, hooded robes and members carrying skulls.”

Ralph Nader on Skull and Bones, the Yale secret society to which both George Bush and John Kerry belong. Reuters, October 22nd

Counting chickens (1)

“52-47 Bush.”

Dick Cheney predicts next Tuesday's results. However, he refused to pick a side in the World Series. Today Show, NBC, October 25th

Counting chickens (2)

“A behind-the-scenes look at the Kerry-Edwards presidential victory.”

Public Affairs *promotes a book by four* Newsweek *journalists, “Election 2004: How Kerry Won and What You Can Expect in the Future.” Overseas rights are sold already.* New York Post, *October 22nd*

Party people

“I think Washington will be more active. I don't think John Kerry and Teresa will go to bed at 9 o'clock.”

A socialite hopes for a change of scene. Washington Times, October 22nd

Family affair

“Because blood is thinner than oil!”

Several distant relatives of Mr Bush have launched a website attacking their cousin. www.bushrelativesforkerry.com

Luvvie of the week

“All the gay guys, all my friends, all my gay friends, you guys you have got to vote, all right?...Because, you know, the people, like, in the very right wing of this party, of these Republicans, the very very right wing, the Jerry Falwell element, if they get any more power, you guys are going to be living in some state by yourselves.”

Cher speaketh unto Miami. Drudge Report, October 23rd

The Economist/YouGov poll

All registered voters:

If the election were held today, who would you vote for? %

*Suppose the election for president were held today. Who would you vote for? %**

	Bush	Kerry
Men	47	46
Women	42	52
Democrats	7	91
Republicans	91	6

Undecided registered voters:

If you do end up voting, which of the following comes closest to your motivation for doing so? %†

Because I like one of the candidates and want to help him win	22
Because I dislike one of the candidates and want to stop him from winning	25
Both	32
Neither	17

In which of the following areas would you expect Bush to perform well/badly, if re-elected? %†

	Well	Badly
Being a strong leader	62	29
Relations with allies	34	57
Health care	29	64
The economy	41	58
Conduct of the war on terror	59	39

*Polling conducted October 25th-27th †Polling conducted October 22nd-25th, registered voters

Source: YouGov

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Predicting the election

Punting for president

Oct 28th 2004
From The Economist print edition

Forget about the opinion polls; follow the money

Gambling on presidential elections is hardly new. As a recent paper by Paul Rhode and Koleman Strumpf, both economists at the University of North Carolina, Chapel Hill, shows betting on the presidential elections dates back to George Washington's time. In the early 1900s, newspapers published daily quotes of the odds. Betting volumes peaked in 1916, with punters betting more than twice the amount of money spent on the campaigns that year. In the elections they studied, the odds nearly always picked the winner.

Cyberspace betting on political events has flourished since the last American presidential election, in 2000. Websites such as www.betfair.com, based in Britain, and www.tradesports.com, based in Ireland, let gamblers back and lay odds on their favourite candidates for a host of American election contests with as much money as they want. An older exchange (and the only legal one based in America, where gambling over the wires is forbidden), the Iowa Electronic Markets (IEM), sponsored by the University of Iowa, has been letting selected experts bet modest amounts for years.

Relying on such markets makes sense in many ways. An opinion poll gauges sentiment on the day it is taken; the betting exchanges are trying to predict a future event, so are often less prone to over-react to the news on any given day. People's responses to polls depend a lot on how the questions are phrased, how the sample of voters was taken and whether they will actually vote. Betting exchanges, more vitally, test how far people are prepared to risk their hard-earned money.

The markets have not ignored the polls. Mr Bush's odds of victory fell dramatically after his first debate with Mr Kerry. But Leighton Vaughan Williams, director of the Betting Research Unit at Nottingham Trent University in Britain, points out that Mr Bush's biggest single-day slide, which took place on the day of the second debate, may have had an economic reason: his number slid hours after disappointing jobs figures were announced and before the debate started. Punters, in other words, are perhaps putting more weight on the economy than on politicians' words.

In the period after the second debate, Mr Bush barely managed to scrape back to a 60% chance of victory, and has fallen from there in recent days, pushed down in part by poor consumer-confidence figures. On October 28th, as *The Economist* went to press, Mr Bush's odds of winning had slumped to 56%.

Online exchanges, to be sure, are not perfect. Mr Vaughan Williams notes that IEM's odds were far off the mark in the 2000 election, predicting that Mr Bush would win a larger fraction of the popular vote than he did. Moreover, IEM failed to predict the Republican victory in the Senate in the mid-term elections in 2002. He thinks that this is perhaps because Iowa's markets keep bets to a small size, which puts less pressure on punters to get their predictions right. But don't bet on it.

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The battle for Congress

The races that count

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From The Economist print edition

It's down to nine races in the Senate and the Republicans have the upper hand

WITH the House of Representatives safely in Republican hands, partly thanks to gerrymandering, the Democrats' only hope of gaining control of Congress lies with the Senate. At present, Republicans have a 51 to 49 majority there (counting Jim Jeffords, an independent, as a Democrat because he caucuses with them).

To shift control, the Democrats need to wrest two seats from the Republicans, though that would drop to one seat if John Kerry wins the presidency, because the vice-president can be called in to break a tied vote in the upper chamber. Of the 34 Senate races this election, only nine are competitive (see table), and the Democrats are defending four in hostile territory: Louisiana, North Carolina, South Carolina and South Dakota are all safe Bush states.

Chamber pot

Close Senate races	Open seat?	Latest poll average
Alaska (R)	No	na
Colorado (R)	Yes	D +2.2
Florida (D)	Yes	D +0.8
Kentucky (R)	No	R +10
Louisiana (D)	Yes	R*
North Carolina (D)	Yes	R +2.8
Oklahoma (R)	Yes	R +3.7
South Carolina (D)	Yes	R +4.5
South Dakota (D)	No	R +0.5

Other Senate seats	Dems	Reps
Safe races†	14	11
No election in 2004	30	36

*Winner requires 50%. No clear winner on 1st round but Republican advantage †Includes Georgia (D) and Illinois (R) which look certain to change parties

Source: *RealClearPolitics.com*

But the Republicans are not out of the woods just yet—partly because they've chosen some awkward candidates for safe seats. In protectionist South Carolina, they have chosen an ardent free-trader, Jim DeMint. In Alaska, Lisa Murkowski was nepotistically appointed to the Senate by her father, Frank, when he gave up the seat to become governor. And in Kentucky, the 74-year-old Jim Bunning has chanced his luck by likening his swarthy opponent, Dan Mongiardo, to one of Saddam Hussein's sons and by accusing Democrats of beating his wife “black and blue” at a picnic.

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The South Dakota Senate race

Tom and John slug it out

Oct 28th 2004 | SIOUX FALLS
From The Economist print edition

The second-most-important race in America

SOUTH DAKOTA is known, if at all, for Mount Rushmore, "The Little House on the Prairie" series and George McGovern, a native son. But this year, says Ann Wagner, the co-chairman of the Republican National Committee, the only race people want to hear about is the Senate battle, between Tom Daschle, the Democratic incumbent, and John Thune, his Republican challenger.

Big game hunting

It is not merely that Mr Daschle is the only Democratic incumbent whose future is a toss-up, nor even that control of the Senate rests partly on the outcome. This race is the culmination of years of Republican attacks. Mr Daschle, as minority leader of the Senate, is the focus of Republican frustration at obstruction in the upper chamber. They talk of "Daschle Democrats" and complain of the "Daschle dead zone" into which their legislative initiatives disappear. Mr Daschle's defeat has been a top priority for the Republicans.

National Republicans think they can win by turning out the base and calling Mr Daschle a "Washington liberal". On the face of it, that should work. Some 48% of South Dakota's registered voters are Republicans, compared with 38% Democrats.

But in South Dakota itself national partisanship is blown away on the prairie winds. Neither George Bush nor John Kerry has campaigned in the state. The words "Democrat" and "Republican" never pass the candidates' lips. Mr Daschle is getting a fifth of the Republican vote, largely because his position enables him to bring the bacon home to a small state. "I'm a Republican, but if I want something done I call Tom Daschle," says one backer.

Mr Thune may argue that Mr Daschle does not share "South Dakota values" (code for "is too liberal on abortion and gay marriage"). But the congressional delegation is Democratic and, were the popular Mr Thune not running (he was the state's congressman-at-large in 1997-2002), the race would not even be close. In the past seven elections when a Senate seat has also been up for election, Republicans have won the presidential contest every time, but Democrats have won the Senate race four times.

Any casual conversation shows the state's essential niceness. The candidates are "Tom" and "John", "good men" even to the other side's partisans. Yet even South Dakota cannot escape something close to partisanship. Dave Kranz, chief political reporter for the *Argus-Leader*, Sioux Falls's newspaper, calls this "the most polarised and nastiest election I've ever seen."

Mr Daschle has raised $18m and Mr Thune $13m (plus outside money) in a state where TV advertising is cheap. Dakotans see more attack ads in a week than most people see in a year, and the candidates have gone at each other hammer-and-tongs in no fewer than six debates. Viewers are sick of it all; the unfavourable ratings of both candidates are up and the election is deadlocked. This contest has polarised even bipartisan South Dakota.

In polarised America, get-out-the-vote (GOTV) operations make the difference between victory and defeat. South Dakota is well practised in these "ground game" wars. In 2002, Mr Thune ran for the Senate against the junior Democrat, Tim Johnson. Mr Johnson squeaked out a 524-vote victory largely because he had what was widely regarded as the best GOTV operation in the country. With help from the Republican National Committee, Mr Thune has improved his "ground game" since. But Mr Daschle's

campaign is Mr Johnson's on steroids.

In a small state (350,000-370,000 likely voters), the Democrats have 29 field offices. Allowing five to ten people per office, that makes one party operative per 1,000-2,000 voters—and they have been working flat out for a year and a half. Armed with laptops, they have contacted every voter in the state, many several times, and have built up detailed profiles of all swing voters and their families.

Combine that with Mr Daschle's reputation as one of the best retail politicians in the country. He has represented the state for 26 years (he is going for a fourth term in the Senate, something no other South Dakotan has achieved). Every year, he has visited each county in the state. Everywhere you go, restaurants or social clubs display the thank-you notes hand-written after each visit (now he stops after each event to telephone swing voters instead).

Mr Thune, a telegenic former basketball player, wows the crowds too. He is adored by social conservatives. But keeping up with the Daschle machine seems to be stretching his GOTV operation to its limits. This month, the head of the operation resigned and six former Republican workers were charged with improperly notarising absentee-ballot applications. The deputy chair of the state Republican party resigned in disgust.

That has helped Mr Daschle, but the race will go to the wire. It will help to decide who controls the Senate, and also the extent to which national concerns trump local ones in a state where, weirdly, a national party leader is running as the state champion and the challenger is more closely aligned to his party's leadership.

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North Carolina's Senate race

Jesse's rod

Oct 28th 2004 | DURHAM
From The Economist print edition

Protectionism, tobacco and Bill Clinton

AP

Bowling along

SENATE races in North Carolina are nearly always tight. Politicians as different as Jesse Helms and John Edwards can tell you that. The race to succeed would-be Vice-President Edwards is no exception. For much of the past summer Richard Burr, the Republican candidate for the Senate, trailed his Democratic rival, Erskine Bowles, by as much as 10 percentage points. Now they are neck and neck.

Mr Burr had a slow start largely because the five-term congressman and one-time sales manager was barely known by voters outside his own district. Mr Bowles was Bill Clinton's chief of staff and ran for the state's other Senate seat in 2002 (but was beaten by Elizabeth Dole). Mr Burr caught up after he had unleashed a $6m advertising blitzkrieg in late September, hammering Mr Bowles as the worst kind of liberal. The once rather gentlemanly Mr Burr said his supporters wanted “skin to rip and blood to flow”.

Mr Burr has locked up his hometown of Winston-Salem and the hardscrabble farm country to the west. Mr Bowles is strong in the central bit of the state, especially in the research triangle formed by Raleigh, Durham and Chapel Hill; and he has solid support among blacks, who make up 21.6% of the population and account for nearly a third of a surge in new voter registrations.

All depends on the eastern part of the state, home to declining industries (manufacturing and tobacco) and plenty of socially conservative Democrats. These Jessecrats sent Mr Helms to the Senate five times. Mr Bowles, a former investment banker, lost the east to Mrs Dole in 2002 partly because he seemed too cerebral. He has since crafted a more folksy air. But Mr Burr, the son of a preacher, peppers his speeches with references to God and country—and has Mr Helms's blessing.

If the Republican wins in the east, it will partly be because he tied Mr Bowles not to John Kerry but to his old boss, Bill Clinton. Mr Clinton's moral failings and his war against the tobacco industry, which along with textiles makes up much of the area's economy, give him a bad name round here. Although it is hard to see the wonkish, bespectacled Mr Bowles as Slick Willie, the mud sticks: Mr Burr is 50%-41% ahead of the Democrat in the north-east, and 47%-43% in the south-east.

Mr Bowles hits back by saying that Mr Burr is in the pocket of drug firms and nursing-home companies. He promises to be an “independent voice for North Carolinians”. He has lots of remedies for the ailing economy. North Carolina has had the eighth-worst job loss in the nation since January 2001. Last year 25 textile mills closed, putting 14,000 people out of work.

By now, sober debate has turned into hand-to-hand combat. Both candidates claim the other is weak (ie, not protectionist enough) on trade. Both call NAFTA a mistake, even though they both backed it. There is the familiar Kerry-Edwards call to stop firms sending work overseas.

The candidates are also punching each other about the “tobacco buy-out” just passed by Congress, which gives both actual and potential tobacco farmers a $10 billion windfall when an unpopular and outdated price-support system for the crop is dismantled. As a member of the House-Senate conference on the deal, Mr Burr calls it a “miracle”. Mr Bowles has flown up to Washington to lobby Democrats not to scuttle the deal. He also claims that Mr Burr, if he had been tougher, could have got millions more for the

farmers.

Which man gets into the Senate may well depend on how the presidential race goes. A Bush landslide will surely mean a Burr victory. But even a narrow defeat for Mr Kerry might be compatible with a win for his Democratic colleague. The Kerry-Edwards campaign has never conceded North Carolina: Mr Edwards has visited the state seven times since he joined the ticket. This has had an effect: Mr Bush, who beat Al Gore here by 13 points in 2000, is now ahead by only about half that margin. A bit brighter for Mr Kerry, and Mr Bowles may yet escape the shadow of Slick Willie.

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Citizens' initiatives in California

Ask the people what they want

Oct 28th 2004 | LOS ANGELES
From The Economist print edition

Watch the governor smile and scowl

JOHN KERRY is bound to carry California. The re-election of the Democrats' Senator Barbara Boxer looks assured. And, given bipartisan gerrymandering, nobody expects much change in the House. So will November 2nd be a wasted day for California's 15.6m registered voters?

Not necessarily. Depending on how the voters react to the 16 citizens' initiatives on the ballot, America's most populous state may soon free some 26,000 convicted felons, become the casino capital of the nation, force firms to provide health insurance to their workers, create a DNA database from crime suspects, make polluters harder to sue and plough $300m a year into stem-cell research. Governor Arnold Schwarzenegger has a 12-page guide telling voters what he thinks about all this.

Take Proposition 66, seeking to amend the state's ten-year-old “three strikes” law, which mandates sentences of 25 years to life imprisonment for a third offence, no matter how trivial, if there are two serious or violent felony convictions already on the record sheet. So far the law has put some 42,000 “third strikers” behind bars, and its supporters say it has helped to cut crime by almost a half.

Proposition 66's supporters say the law is too clumsy, leading to virtual life sentences for criminals whose third strike was nothing more than stealing a slice of pizza. They propose that the third strike, too, should have to be a serious or violent felony. They claim this would set free only around 4,000 prisoners. The governor claims the true number is 26,000 criminals and says it “will flood our streets with thousands of dangerous felons, including rapists, child molesters and murderers.” The voters seem willing to take the risk: judging by an opinion poll earlier this month, 65% back Proposition 66.

The governor is on firmer ground in his opposition to Propositions 68 and 70. The first is a drive sponsored by horse-race tracks and card clubs to end the Indian tribes' monopoly on slot machines. The second would allow the unlimited expansion of gambling on Indian reservations. Mr Schwarzenegger says both are “a bad deal”. Neither seems likely to pass.

If the voters also reject Proposition 72, the people who rejoice most will be the ones who put it on the ballot. This is because 72, which would require big employers to provide health insurance from January 2006, and small employers from January 2007, is actually a cunning referendum on a law passed last year, which business groups and the governor dislike. If the proposition is defeated, the law will lapse, too—and some 1.4m workers will remain without health cover. The betting, however, is that the proposition, which is supported by Democrats, will pass.

Mr Schwarzenegger may also get beaten on another “pro-business” proposition, 64, which tries to stop “shakedown lawsuits”, but which has annoyed consumer watchdogs and environmentalists. But the governor's two most daring gambits involve annoying his own party.

The first is backing Proposition 71, which raises $3 billion to finance stem-cell research, which is anathema to social conservatives. The second is supporting Proposition 62, which would open up primaries. At present voters can vote only for candidates from their own party; in future, they could cast their ballots for any candidate, with the top two candidates going to a run-off, even if they were from the same party. In theory this would break political deadlock by helping moderates, such as, well, a certain hedonistic Austrian.

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Arizona's illegals

Another rebellion

Oct 28th 2004 | PHOENIX
From The Economist print edition

In immigration reform, be careful what you wish for. You may get it

AP

Round 'em up

AGAIN and again, the issue of illegal immigration erupts in one state and then spreads into others. It happened in California in 1994, when voters approved Proposition 187. It may happen again in 2004, if Arizona approves Proposition 200. The state has, at a guess, 300,000 undocumented immigrants. After crackdowns in California and Texas, Arizona's border with Mexico has become the crossing-point of choice for smugglers. Around 230,000 people have been arrested for illegal immigration in Cochise County alone, a fifth of the whole country's total.

California's Proposition 187 would have denied state education and social services to illegal workers and their families. Arizona's would not block federally mandated benefits such as public-school education. But it requires the state and local governments to check the identity and eligibility of anyone applying for other "public benefits", and threatens local officials with a $750 fine and four months' imprisonment if they fail to notify immigration authorities of offenders. The Arizona initiative, unlike California's 187, also adds voting requirements. Arizona would become the only state to require people registering to vote to show proof of citizenship (the others just take their word for it).

In California, the Republicans backed 187, which at first helped them but then turned many Latinos against them. In Arizona, the Republican establishment has joined the Democrats, the state's chamber of commerce, and its main newspapers and universities in opposing the measure. They all say Arizona can take more Latinos—already a quarter of the population.

As in California, this does not cut much ice with white voters worried about their jobs. They currently back the measure by around two to one, roughly the margin that passed Proposition 187.

There is little sign of Latinos turning out to vote against 200. But, as Bruce Merrill of Arizona State University argues, the likely passage of the proposition could do what the debate about it has not done: persuade a lot more Latinos to vote Democratic.

In California, Proposition 187 was struck down by the courts. Proposition 200 will inevitably face legal challenges, too. But it may have an influence even if it fails. California's former governor, Gray Davis, said Proposition 187 rippled outwards, leading to some federal immigration changes in 1996. With about 8,000 people illegally crossing America's borders each day, the passage of Proposition 200 could have an impact far beyond Arizona.

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Lexington

If Bush loses...

Oct 28th 2004
From The Economist print edition

Expect a few defenestrations in the Republican Party, but not a bloodbath

IN THE wake of George Bush senior's defeat in 1992, the Republican Party had a collective nervous breakdown. One of the many bizarre manifestations of the breakdown took place at the Heritage Foundation: a group of young conservatives filled a hall with friends before marching in carrying a plastic head of the former president on a plate. The plate was covered with blood-coloured crêpe paper—and the young activists were almost as jubilant as the triumphant Clintonites down in Little Rock.

What will happen to the Republican Party if the younger Bush goes the same way as his father next Tuesday? Everything depends on how much he loses by, of course. But let's assume that the opinion polls are right and any defeat is marginal rather than catastrophic. And let's assume that the Republicans retain control of at least one chamber of Congress. What then?

Grover Norquist, a Republican who runs Americans for Tax Reform, has a blunt answer to the question: “Nothing.” That looks optimistic. Several groups of people can be expected to get it in the neck. The first are the incompetent realists, which is shorthand for Donald Rumsfeld; had smug old Rummy not made so many mistakes on Iraq, Mr Bush would still be a shoo-in. The neo-conservatives will also be in the firing line for their dreamy depictions of Middle Eastern democracy, though they will surely reappear in another incarnation. If the polls show Mr Bush doing badly with, say, suburban women because of his “southern” stands on stem cells and gay marriage, a few murmurs may be heard even from libertarians. And just about everybody—including, probably, Mr Norquist—will blame Mr Bush's spending binge, known as “big-government conservatism”.

So big-government conservatism would go. But what else? You can expect some intellectual fireworks in small-circulation magazines and perhaps the odd public beheading of Bush courtiers (Rummy had better write his memoirs quickly). But don't expect these fireworks to generate a long-running civil war.

First, conservatives have embraced the son in a way they never embraced the father. This is not only because Mr Bush has provided the various conservative tribes with all the red meat they crave—from tax cuts to opposition to homosexual marriage. They also like the cut of his jib. They like his set-a-clear-goal-and-stick-to-it leadership style. And they like his willingness to take difficult decisions even if they mean a rocky ride. The majority of conservatives approved of getting rid of Saddam, even if they now lament the pussyfooted execution of the war.

America's supercharged political atmosphere has solidified Republican support behind the president. When the other side calls your man a village-idiot-turned-Texan-Hitler, your inclination is to stick with him. And that support will be solidified further if Republicans are required to watch scenes of Parisians and Palestinians celebrating Mr Bush's defeat. Mr Bush will return to Crawford as a Republican hero-cum-elder-statesman. And his many friends in the Republican establishment will do everything in their power to wangle him the one job he has always wanted—baseball commissioner.

The second reason for cohesion is that the Republican Party will still have plenty of power centres it can use to impose discipline and motivate the faithful. The balance of power in the party will inevitably shift back to Congress—and particularly to the House of Representatives (where Dennis Hastert, the speaker, and Tom DeLay, the majority leader, are past-masters at keeping the party united and at war with the Democrats). But the Republicans will also have a quiverful of energetic governors across the country: Arnold Schwarzenegger, for example, who is trying to fashion a new liberal Republicanism in California, and Rick Perry, who is championing tort reform in Texas.

Lastly, this year's presidential campaign has done nothing to discredit either conservatism as a philosophy or the Republican Party as an organisation. John Kerry has failed to mount an intellectual assault on conservatism in the way that Bill Clinton did in 1992. People will be voting for Mr Kerry out of opposition to Mr Bush rather than enthusiasm for an exciting new brand of liberalism. In other circumstances, Karl Rove, Mr Bush's Svengali, might have to make his living in the bed-and-breakfast business with which he once flirted. This time, Republicans might conclude that he made the best out of a terrible hand.

The men-in-waiting

The best chance of a real scrap would await the Republican primaries in 2008. The most exciting candidates are all on the party's libertarian or maverick wings: John McCain, Chuck Hagel, Rudy Giuliani and, just possibly, Mr Schwarzenegger. The leading conservatives all carry heavy burdens: Jeb Bush has his family name (three Bushes is a lot even in such a dynastic country); Bill Frist will have to explain the prescription-drugs boondoggle and his role in big-government conservatism. But the chances are that both sides will be more interested in eating rubber chicken than in philosophical debate. Even a professional maverick like Mr McCain may be less interested in playing the anti-establishment card than he was four years ago, when the entire establishment was rooting for Mr Bush.

The biggest problem for a post-Bush Republican Party would not be a fratricidal battle over the future of conservatism but the possibility of the party morphing all too merrily into a party of opposition. Mr DeLay and his allies are skilled at blocking Democratic legislation. And conservative activists are seldom happier than when they are savaging Democratic politicians—particularly Massachusetts liberals with billionaire wives. The Republicans will relish the chance to do some bashing of their own if Mr Bush loses. But they should remember that winning elections requires more than just standing “athwart history yelling ‘Stop!'.” That will be just as true in four years as it is now.

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Leonard Silk Prize

Oct 28th 2004
From The Economist print edition

John Micklethwait, our United States editor, and Adrian Wooldridge, our Lexington columnist, have won the 2004 Leonard Silk Journalism Fellowship for their book, "The Right Nation: Conservative Power in America" (Penguin Press). The prize is given by the New York-based Century Foundation.

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Apology

Oct 28th 2004
From The Economist print edition

In our US election briefing (October 9th 2004) we published an illustration which included an image of two people, one of whom is holding a gun. The artist used the image without permission from the owner, Oleg Volk. We are sorry for this error.

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Uruguay's election

Red, white and new

Oct 28th 2004 | MONTEVIDEO
From The Economist print edition

AFP

Uruguay is set to break with 150 years of history by electing a leftist president. But with a ragbag coalition behind him, what will he deliver?

URUGUAYANS miss the past—and who can blame them? In 1950 the national football team snatched the World Cup from Brazil and Uruguayans considered their country the Switzerland of the Americas. But more recent history has been cruel. Since 1998 the economy has been pummelled by foot-and-mouth disease (which hit beef exports), the economic implosion of neighbouring Argentina, the collapse of the biggest banks and a massive devaluation. The economy has shrunk by 15%. In the past decade perhaps 120,000 Uruguayans, most of them young, have left the country; of the 3.4m who remain, around 30% are living in poverty. Uruguay is still better off than most of Latin America, but it is no longer much like Switzerland.

And so Uruguayans are about to jettison part of their past that they now despise: a two-party system that dates back to the 1830s. In national elections voters are likely to choose Tabaré Vázquez, an oncologist and former mayor of Montevideo, as the country's first third-party president—if not in the first round on October 31st, then almost certainly in the run-off on November 28th. Uruguay is “on the verge of a great shift,” says Luis Alberto Lacalle, a former president.

The shift is away from the two traditional parties and the dynasties linked to them. The mighty Colorado (“Red”) Party, in power for all but a few decades, is expected to win just a tenth of the vote. The outgoing president, Jorge Batlle, whose great-uncle founded Uruguay's welfare state, may be the last of the line. Mr Lacalle's Partido Nacional (the “whites”) has fielded the main challenger to Dr Vázquez, but is well behind in the polls.

But a shift towards what? Dr Vázquez, a pragmatist, has been a cautious campaigner, ducking debates and press grillings, content to let public fury carry him to victory. The Frente Amplio-Encuentro Progresista, the coalition of leftist parties he heads, is a weird and unpredictable mix of radicals and reformers, including ex-Tupamaro guerrillas, Communists and Socialists along with European-style social democrats. Most are hostile to the current government's “neoliberalism”, namely feeble attempts to privatise and the pursuit of free trade with the United States. They exalt labour unions, social spending, “sectoral” policies and Mercosur, the flawed customs union that Uruguay shares with Brazil, Argentina and Paraguay, and which recently failed to clinch a free-trade pact with the European Union (see article).

But it adds up to a new attitude more than a new direction.

A big reason for that is the public debt and the way Dr Vázquez plans to handle it. Unlike Argentina, Uruguay does not intend to default on its debt, which is about the size of its GDP. A restructuring last year of debt owed to private creditors helped restore confidence in the economy, which is expected to grow 8% this year. To keep up payments to official creditors Uruguay will need to negotiate new loans from the biggest of them, the IMF. In July Dr Vázquez signalled his willingness to work with the IMF, and probably sealed his victory, by naming in advance as economy and finance minister Danilo Astori, the most responsible leader of his coalition.

The IMF wants Uruguay to introduce a broad-based income tax, to reform police and army pensions and, most important, to maintain a primary surplus (before interest payments) of around 4% of GDP. This would be a bit higher than the 3.4% target for 2004. Mr Astori will not publicly endorse a specific target (though he says the surplus ought to vary with the economic cycle), but he encourages comparisons to Brazil, whose government voluntarily raised the primary surplus twice. “Brazil played a central role to prove that a leftist government can be compatible with very rigorous fiscal behaviour,” he says.

Leftism, on Mr Astori's view, is also compatible with investment. Raising it from a derisory 12% of GDP to 20% within five years is the key to everything else the Frente Amplio wants to accomplish, he says. And, unlike some of his colleagues, Mr Astori expects most of that to come from private enterprise. Public investment, he admits, “will be highly limited because our resources are very scanty.”

The main doubt is whether the rest of the Frente Amplio will accommodate Mr Astori's realism or seek to sabotage it. The party's plan for centralised labour negotiations would force the same wage deal on all firms in a sector, regardless of their productivity, points out Jorge Caumont, an economic consultant. That will not help investment. Nor will the party's campaigns against privatisation. Last year the Frente Amplio blocked private investment in the state energy firm, ANCAP, through a referendum. It is now backing one that would prohibit private ownership of water.

Mr Astori says that unions will be reasonable, that state enterprises will seek partners and that investors will have “clear, stable rules”. To ensure all that, he needs a strong economy and, above all, stalwart backing from the president. Dr Vázquez has already shown that he calls the shots in the Frente Amplio, says Adolfo Garcé of Grupo Radar, a polling firm. He may be the first president in 40 years with an outright majority in congress. But to get Uruguay working for the future rather than dwelling in the past will require courage as well as clout.

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Peru's terrorism trials

Still shining after all these years

Oct 28th 2004 | LIMA
From The Economist print edition

At last, a trial for Peru's terrorist mastermind

Get article background

Reuters

The dialectician of death

WEARING a thick pair of square glasses and a bulky cardigan, 69-year-old Abimael Guzmán resembles the elderly former philosophy professor he is. That is certainly the image he would like to cultivate before the judges in his long-awaited trial on terrorism charges, which is due to begin on November 5th.

It is going to be a hard sell. Mr Guzmán is less famous for teaching philosophy than for being the founder and leader of the Maoist Shining Path, Latin America's most brutal insurgent group. He is accused of being one of the masterminds behind a two-decade-long conflict in which more than 69,000 Peruvians died or disappeared, with 54% of those cases being blamed on the Shining Path. Known to supporters as “President Gonzalo”, he claimed that the party's ideology, Gonzalo Thought, was on the way to becoming “Gonzalism”, a universal principle that included such ideas as inducing genocide and eliminating 10% of the population.

Mr Guzmán was originally arrested in September 1992, amid a massive bombing campaign in Lima, the capital, at a time when he claimed that the Shining Path was on the edge of victory. He was put in a cage, tried by a military court and sentenced to life in jail. But the trial and verdict were overturned in January 2003, when Peru's highest court declared the anti-terrorism legislation unconstitutional. Since then, the courts have been preparing to retry more than 2,000 inmates. So far, 212 have been released for lack of evidence or because their sentences were already up.

So it should be good news that by far the most important trial, that of Mr Guzmán and 17 other Shining Path members, is at last going ahead; but it comes at a sensitive time. The judiciary is under attack from all sides. Alejandro Toledo, Peru's president, has been criticising slow progress on high-profile cases. In a television interview on October 24th, he said that Peru “runs the risk of having the doors opened for terrorists to be freed.”

Others, meanwhile, fear that it could be a catalyst for a rebirth of the Shining Path. The civilian proceedings, unlike the military trials held behind closed doors, could give Mr Guzmán and his co-defendants a chance to preach to the public. Benedicto Jiménez, a retired police colonel who was part of the team that arrested Mr Guzmán, says the Shining Path sees the retrials as a chance to jump-start itself. He points to last month's arrest of eight teachers, who were charged with belonging to Mr Guzmán's movement, as a sign that it is being rebuilt. A survey of Lima residents last month by Apoyo, a polling firm, found that 45% of them think it “probable or very probable” that Peru will suffer another wave of terrorism in the coming decade.

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Mercosur and the EU

More jaw-jaw

Oct 28th 2004 | SãO PAULO
From The Economist print edition

Free-trade talks fail again

IT WAS supposed to be wrapped up by October 31st: an agreement between the European Union and Mercosur, a four-nation grouping in South America, to create the world's biggest free-trade area. But the deadline will now pass with no agreement except to keep talking next year. Most Europeans will not notice, but after five years of trying, Mercosur is starting to worry.

Both sides are to blame. The Europeans, ever solicitous of their inefficient farmers, offered less liberalisation of agricultural trade than Mercosur hoped for. The Mercosur four—Brazil, Argentina, Uruguay and Paraguay—are fearful of competition and divided among themselves, and have put up their own shields for domestic firms. The result, says Marcos Jank of ICONE, a São Paulo think-tank financed by agricultural exporters, was a lowest-common-denominator offer. The European Commission, whose term expires on October 31st, conceded little in return.

For Mercosur the stakes are high. Most of its member governments would rather have an agreement with the EU than sign up to the Free Trade Area of the Americas (FTAA), a hemispheric deal promoted by the United States. For Brazil, access to Europe's vast market is second in importance only to the multilateral Doha talks, which offer hope of cutting agricultural subsidies in the rich world. Mercosur risks losing trade and investment to countries that are more successful in negotiating deals with the two biggest markets.

The setback will force Mercosur to ponder its own failures: protectionism levelled by its members against each other, a weak secretariat, poor co-ordination of policy on everything from trade negotiations to state support for industry. Mercosur leaders will try to sort some of this out at a summit planned for December.

Progress with the EU also depends on what happens in other negotiations. Agricultural talks will go more smoothly if the Doha round deals with subsidies. If the FTAA talks pick up after America's presidential election, so will pressure on the EU to make progress with Mercosur. Mercosur's trade with the United States is 20% smaller than with the EU, but it is growing faster. Fear of losing out to America and its partners was what prompted the EU to start the talks in the first place.

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Cuba's currency

Adios to the greenback

Oct 28th 2004 | MEXICO CITY
From The Economist print edition

Fidel Castro has banned the dollar—helped by America's embargo

Get article background

Reuters

Jackson loses face value

FEW things can irk Cuba's president, Fidel Castro, more than the fact that the greenback, the ultimate symbol of the global power of his arch-enemy, the United States, is also a mainstay of his own country's economy. And therefore few things can have satisfied him more than announcing this week, just days after a humiliating fall in which he fractured his knee and arm, that from November 8th, the dollar will no longer be legal for commercial transactions. Cubans will still be able to keep dollars and to swap them for “convertible pesos”—equal in value, but thoroughly unconvertible anywhere outside Cuba—but they will pay a 10% commission.

The dollar's introduction as legal tender in 1993, along with a slight loosening of restrictions on private enterprise, was an emergency measure to help the country earn hard currency after the Soviet Union, and its subsidies to Cuba, disappeared. But unlike many hopeful Cuba-watchers, Mr Castro clearly never saw such measures as anything but temporary. The dollar's withdrawal is just the biggest and latest step in a series. American coins were taken out of circulation in October 2001, and last year state companies were forced to use only convertible pesos. The never-easy rules on private entrepreneurship have been tightened bit by bit; a month ago there was a freeze on new licences for many kinds of small business.

The latest news sparked widespread dismay among ordinary Cubans, who are now rushing to bring dollars out from under the mattress and convert them before the November 8th deadline; but after that it may not make too much difference to them, nor to tourists. The 10% commission will not apply to other currencies. Indeed Mr Castro encouraged Cubans to ask their relatives abroad, who send home some $1 billion a year, to switch to other currencies for the transfers.

Rather, the latest move seems designed both to restock the government's dollar reserves and to re-assert its authority over the financial system. Indeed, it makes a certain sense. It is not easy running monetary policy in a dual-currency system when the country that issues one of the currencies is doing its darnedest to prevent you from getting any. Under America's four-decade-old economic embargo, only the Treasury can allow the use of dollars in transactions with Cuba.

But this also means that Mr Castro has once again been able to use the embargo as a pretext for imposing new restrictions on his people. As part of what he calls America's “imperialist economic warfare”, Mr Castro cited the $100m fine that the Federal Reserve imposed on UBS, a Swiss bank, in May, for illegally transferring freshly printed dollar notes to Cuba. According to some reports this had made it harder for Cuba to renew its stock of dollars in circulation. Hours before Mr Castro's announcement, the Treasury had announced sanctions against Sercuba, a company with offices in Cuba and Europe that allows Americans to send money to Cuba via a website.

Such sanctions make the unpopular move of withdrawing the dollar much easier: blame America. It is yet another example of how, far from undermining Mr Castro, the embargo has consistently been his biggest political prop.

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Alberta's oil bonanza

And God smiled on Calgary

Oct 28th 2004 | VANCOUVER
From The Economist print edition

An embarrassment of oil riches

“LORD, grant me one more boom,” said bumper stickers on Albertans' cars during the oil-price slump 22 years ago, “and I promise not to piss it away this time.” The Lord seems willing to give it a try. With oil prices in the $55-a-barrel range, Canada's oil-rich western province has more money gushing in than Albertans know what to do with. The problem—one the rest of Canada would dearly love to have—has become the underlying issue of next month's provincial election.

For residents of neighbouring British Columbia, where an economic comeback is just beginning, the scene in Alberta is mind-boggling. In Calgary, the centre of the oil patch, the business district bristles with construction cranes and new office towers, while new housing tracts spread over the surrounding hills. The talk is of six-figure home renovations and lunches with C$600 ($490) bottles of wine. “Calgary is on steroids,” says a local.

So is the capital, Edmonton, where numerous new townhouses are rising along the North Saskatchewan river, and new shopping malls and factories advance out into the prairie. Alberta is leaving other provinces far behind, growing its economy faster, attracting more newcomers, adding more jobs and paying higher salaries. Per capita GDP in the Edmonton-Calgary corridor is now 40% higher than in the rest of Canada, while the province has the lowest personal and corporate tax rates in the country. And this is attracting the investment that is now driving the province's prosperity, says Mike Percy, the dean of business studies at the University of Alberta: “Right now close to C$95 billion in capital investments are either under way or planned for the next decade.”

No wonder Alberta's folksy premier, Ralph Klein, was at his affable best on October 25th when he called a provincial election for November 22nd, his last after 11 years in power. With his Conservative government holding 73 of the 83 legislature seats and consistently drawing at least 50% support, he stands virtually no chance of defeat. Alberta is riding a string of surpluses: C$4 billion last year, maybe C$7 billion next year, with a C$12 billion rainy-day fund producing C$2.5 billion a year in income. It already has the C$3.7 billion in hand to wipe out the last of its debt this spring, making it Canada's first debt-free province. As the finance minister, Pat Nelson, told a business audience, “It doesn't get any better than this.”

But Albertans know the surpluses are partly artificial. Ten years ago, with a deficit looming, Mr Klein slashed spending by about 20% across the board. Now with a full treasury, critics say his government is still too tight-fisted in the face of about C$8 billion in delayed projects for schools, universities, hospitals, roads and sewers needed to meet Alberta's supercharged growth. Mr Klein has taken heat not only from opposition Liberals and New Democrats, but also from health, education and community groups and ordinary citizens complaining of a lack of long-term vision.

In his campaign, Mr Klein is promising to open the purse-strings to meet investment needs. But the long-term questions still remain. Within a generation the province's known conventional oil reserves will probably be depleted. And while Alberta has several hundred years' supply of oil locked up in oil sands (increasingly being tapped), only continued record prices will make these worth exploiting. So where, the opposition asks, is the plan to keep the good times coming? Or will Alberta once again break its end of the bargain with the Lord?

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Counter-proliferation in Asia

No place to hide, maybe

Oct 28th 2004
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Japan has led the way in efforts to halt East Asia's illicit weapons trade, and now others are starting to follow

THIS time it was only an exercise. One of the two pretend culprits was cheekily flying the skull and crossbones. But the nine coastguard and naval ships from Japan, the United States, Australia and France that assembled in Sagami Bay, south-west of Tokyo, on October 26th to track and board the miscreant vessels were otherwise in deadly earnest. Though it was the first such drill to be held in East Asia, “Team Samurai” is one of a dozen dress-rehearsals around the globe over the past 18 months to practise ways of halting the illicit trade in materials for weapons of mass destruction. It also caused outrage in North Korea, which condemned the whole exercise as an “ultimate war action”.

“It doesn't threaten North Korea. It protects the rest of the world,” said Colin Powell, America's secretary of state, on a swing though Japan, China and South Korea this week. North Korea disrespectfully disagrees, but the American-inspired proliferation security initiative (PSI), of which this week's manoeuvres were a part, is not aimed at just one country. Others on any proliferation watch-list would include Pakistan, whose former chief nuclear scientist, Abdul Qadeer Khan, until his arrest earlier this year masterminded a global proliferation supply chain that tapped companies in Europe, Asia and Africa. Iran, Myanmar, Syria and others are under scrutiny too.

East Asia's busy ports and shipping lanes are thought to hide deadly cargoes. Since PSI got under way, Japan has taken a lead in regional anti-proliferation efforts. Last year it gathered together the ten countries of South-East Asia, plus South Korea, to explain what PSI is about; the group will meet again shortly. Earlier this month Japan joined seven other Pacific-rim countries, namely America, Australia, China, Hong Kong, Singapore, South Korea and Thailand, in an agreement to find more effective trade rules for illicit weapons and materials.

Yet some in the region are still wary. When the Team Samurai four held a similar exercise off Australia's Queensland coast a year ago, there was suspicion that self-appointed PSI enthusiasts (the core group includes Britain, Germany, Italy, the Netherlands, Portugal, Spain, and now Singapore and Russia too) would ride roughshod over international law. A set of PSI interdiction rules offers some assurance: action will take place only with government consent in territorial waters and, on the high seas, only with flag-country approval. (America has signed consent agreements with Liberia, the Marshall Islands and Panama which, together with commitments from PSI partners, represent roughly 50% of the dead-

weight tonnage of the world's commercial shipping fleet.)

Now PSI has been given an added legal boost. Earlier this year the UN Security Council passed resolution 1540, obliging all governments to adopt domestic controls—and where possible to co-operate—to prevent illicit trafficking in weapons materials and delivery systems.

All this consciousness-raising is starting to have an effect in Asia. Japan was pleased that this week Thailand, the Philippines and Cambodia (as well as New Zealand) showed up to watch a PSI exercise for the first time. And Singapore will host a similar exercise in August next year .

Others have proved more stand-offish. China and South Korea, keen not to antagonise North Korea at a time when the six-party talks on its nuclear programmes appear to be stalled, both turned down invitations to watch this week. Malaysia and Indonesia have likewise declined to join directly in PSI, although both sit on busy trans-shipment routes, and have started to co-operate in combating piracy in the Malacca strait.

Yet it is getting much harder for countries to duck their anti-proliferation obligations entirely. By October 28th, all governments were due to make a first report to the UN detailing their national legislation on trafficking-prevention, on export controls and on how dangerous weapons-related materials are secured. Japan, like Britain and America, has offered help to any who need it. Those who miss the deadline, or have inadequate controls, can expect pointed questions from a special committee, backed by UN-hired experts.

Governments that have signed the Nuclear Non-Proliferation Treaty (NPT), the Chemical Weapons Convention (CWC) and the Biological Weapons Convention are already supposed to have such laws on their books, but many have dragged their feet. Now, for the first time, treaty hold-outs have similar obligations. Pakistan, for example, like India and Israel, is not a member of the NPT. Yet its government, embarrassed that the Khan network may have broken no Pakistani laws, used resolution 1540 to justify new export-controls.

North Korea says it has pulled out of the NPT and it never signed the CWC. Yet it was surely no coincidence that the Team Samurai warriors were practising boarding a ship carrying stocks of nerve gas. Over the past year South Korea, Thailand and Singapore have all moved against companies or middlemen selling North Korea huge quantities of sodium cyanide, which has some industrial uses but is also a precursor for tabun, a potent nerve gas. Other shipments have also been halted. Whether as a receiver of illicit goods or a supplier, North Korea is increasingly likely to feel the counter-proliferation pinch.

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India and Pakistan

Commando diplomacy

Oct 28th 2004 | DELHI
From The Economist print edition

At last, a real debate over Kashmir—if a debate can have only one side

Get article background

IN THE 18 months that India and Pakistan have been trying to mend their 57-year feud, there have sometimes seemed to be two parallel peace processes. In one, sombre-suited diplomats engage in a painstaking “composite dialogue”. The other is a solo show by Pakistan's president, General Pervez Musharraf. He sometimes tires of the diplomatic trenches and goes over the top, sharing his ideas with a public microphone. Once a commando, his officials must think, always a loose cannon.

His latest musings are the most undiplomatic yet. Hitherto, in talking of the core of Pakistan's dispute with India—the future of Kashmir—General Musharraf has stuck to general principles. Kashmir is divided into zones of Indian and Pakistani administration by a “line of control” neither recognises as a permanent border. General Musharraf has always insisted that this status quo cannot be the basis of a solution. “That is the dispute”, he says, and one which has caused three wars, the most recent in 1999.

On October 25th, however, at a Ramadan fast-breaking dinner, General Musharraf took his ideas two steps further. First, he seemed to accept that, just as the line of control is unacceptable to Pakistan, so Pakistan's demand for a plebiscite, in which Kashmiris would choose between accession to India and Pakistan, is never going to be allowed by India.

Second, he started to elaborate other options. He noted that Kashmir has seven regions, two in Pakistan and five in India. He argued that some or all of these regions should be demilitarised and their status changed. The result could be independence, “condominium” between India and Pakistan, or a UN mandate.

There are two ways of looking at the general's startling proposals. On the bright side: India, although formally claiming Pakistan-controlled Kashmir, has long been prepared to settle for the line of control as the international boundary. Transform the “independence” that General Musharraf lists as an option into some form of “enhanced autonomy” and a solution seems at least possible.

There are, however, reasons for scepticism. The general's proposals, as currently formulated, echo ideas in circulation for some time which are unacceptable to India. Worse, negotiation by press conference implies that the gulf between the two sides is so wide that these sorts of ideas have not even been broached.

India responded with chilly formality, saying it was not prepared to discuss Kashmir through the media. But at least it did not rule out talking on these lines. It probably calculates that General Musharraf needs to start building a constituency in Pakistan for a radical change in the country's negotiating position. He needs one: his opponents have already accused him of plotting a “sell-out” in Kashmir.

In the five years since he took power, General Musharraf has steered his government through some drastic policy shifts. He has ditched Pakistan's protégés, the Taliban, in Afghanistan, and disgraced a national hero, Abdul Qadeer Khan, for selling nuclear know-how. All this has met resistance which, so far, he has overcome. Now he may have begun his hardest sell yet: to persuade his countrymen to drop most of Pakistan's claims on Kashmir.

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India and history

Macaulay's children

Oct 28th 2004 | DELHI
From The Economist print edition

Quarrelling over India's past

THE past, as is well known, is a foreign country: they do things differently there. The Indian past is in fact several foreign countries, and the maps keep changing. Under the Bharatiya Janata Party (BJP) government that fell in May, history was “saffronised” in the colour of India's Hindu majority. The Congress party, which heads the new ruling coalition, is now seeking to “detoxify” the school curriculum.

Both Congress and the BJP, however, are nationalists. Both celebrate India's liberation from the tyranny of British historians and social critics. Yet even here, India's diversity forbids unanimity. Witness a new campaign to rehabilitate the reputation of Thomas Babington Macaulay, a 19th-century politician and writer.

In the 1830s, Lord Macaulay was a member of the British Supreme Council in India. His comments on Indian culture and scholarship still rankle. “The whole native literature of India and Arabia,” he asserted with the confidence of one unable to read any of it, was worth but a single European library shelf.

Few Indians would want to stick up for this supercilious English xenophobe. Indeed, when a leading Hindu politician this month wanted to say something really nasty about his opponents, he called them “Marx's and Macaulay's children”. Yet on October 25th, Macaulay's birthday, Delhi witnessed a little ceremony to honour the writer.

The organiser was Chandrabhan Prasad, a writer and a Dalit—ie, a member of the group of Indians once called untouchables, who are born at the bottom of India's caste system. Macaulay appeals because of what Mr Prasad calls his “anti-Hindu, anti-caste views”. But he was also one of the first to advocate Indian independence (albeit on grounds of English commercial self-interest).

The attempt to reassess Macaulay as “India's earliest Gandhi” is quixotic. But it serves to remind Indians and others that, along with the nonsense, he spoke much sense. Take his onslaught on those who argue that “no people ought to be free till they are fit to use their freedom”. From Afghanistan to Iraq to China, that argument is still heard. But, as Macaulay put it: “If men are to wait for liberty till they become good and wise in slavery, they may indeed wait forever.”

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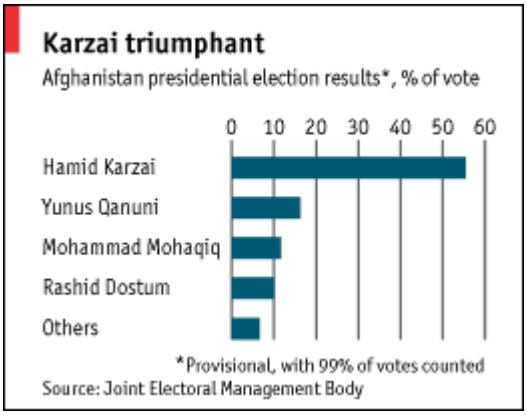
Afghanistan

America's boy done good

Oct 28th 2004 | KABUL
From The Economist print edition

Hamid Karzai must now put his electoral victory to good use



HE HAS been branded an American stooge, yet most Afghans approve of him anyway. With 99% of the vote counted in Afghanistan's first presidential election, Hamid Karzai had won 55% of the vote, 39 points more than his nearest rival. His victory was expected to be formally declared on October 31st, pending the results of an investigation into the election's many flaws and the arrival of the last weary UN donkey, bearing a ballot-box in from the wilds.

In an 18-man field, Mr Karzai's win was impressive. Only three of his opponents got more than 2% of the vote. And only one of those, Yunus Qanuni, a stern Tajik, could claim to have won more than local support. Yet the vote was sufficiently scattered to seem credible to Afghans. And Mr Karzai's victory looks sufficiently thumping to give him the legitimacy he has lacked during three years as Afghanistan's transitional leader. Most of his challengers seem to have accepted as much, despite their previous threats to boycott the vote over irregularities on polling day.

But now comes the tricky bit. Though endorsed by most Afghans, Mr Karzai's government does not yet control most of Afghanistan. The country remains broken and extremely violent in parts. Where there is peace, it is often imposed by well-armed warlords, in defiance of Mr Karzai's government in Kabul. One such is Rashid Dostum, a barely-literate Uzbek who rules much of northern Afghanistan and who won 10% of the vote. Rural Afghans voted for Mr Karzai to bring them a national government instead of such men. To convince them that democracy was, after all, worth a day off from their fields, he will now have to do so.

A first clue to Mr Karzai's intentions will be the look of his new cabinet. Acknowledging his victory this week, Mr Karzai predicted that naming his ministers would be like opening Pandora's box. Given that his transitional cabinet was swollen with dozens of crooks and cronies and some alleged war criminals, this was rather worrying. In fairness, Mr Karzai is still bound to a degree of conciliation, given the ethnic fractures in Afghan society which the poll largely confirmed.

The Tajiks, for example, including many leaders of the Northern Alliance, which helped topple the Taliban, will still need pleasing. Mr Karzai appears to have succeeded in sidelining their former champion, Mohammed Fahim, his troublesome defence minister; Mr Qanuni, an abler minister, will require a top job instead. However, if the election is to give the political system the sluicing it needs, Mr Dostum and the chief candidate of the Hazara tribe, Mohammad Mohaqiq, who won 11% of the vote, must be overlooked. They both impeded the transitional government. Moreover, they should expect more than a mention in a forthcoming series of reports into the crimes of the civil war.

Mr Karzai has another pressing reason to confront the warlords. A parliamentary election is due in April, which will offer a much more attainable prize to them and the village commanders through whom they rule. Unless they are disarmed before the vote, these men could terrorise it, producing a farcical election and a parliament made up of warlords. Mr Karzai may come to see the next few months as a blessed time, when he had a mandate and the freedom to use it.

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Thailand

Thaksin the callous

Oct 28th 2004 | BANGKOK
From The Economist print edition

Muslims die in custody, and the prime minister blames Ramadan

Get article background

IN EARLY October Thailand's prime minister, Thaksin Shinawatra, sacked his defence minister because the government was not doing well in its effort to quell violence among the mainly Muslim population of the country's south. Barely three weeks later, it is doing horribly worse, thanks to the killing of 84 Muslims by the army, most of them in army custody. Muslim leaders in the area predict a bloody backlash. A Thai human-rights lawyer suggests that the region may be reaching “the point of no return”.

The violence erupted on October 25th after police in the town of Takbai, in Narathiwat province, pulled in six men suspected of stealing automatic weapons from the army and distributing them to local Muslim militants. Six people were shot dead when soldiers and policemen quelled a riot outside a police station holding them. The army then packed 1,300 people arrested in the mêlée into a handful of trucks to transfer them for questioning to a military camp in the neighbouring province of Pattani. At least 78 of the detainees died on the way, most from suffocation.

Two whole days later Mr Thaksin voiced his regret at the deaths and promised to launch an inquiry. But this modest act of contrition came too late. It followed Mr Thaksin's outrageous claim that the detainees had died because they had been weakened by the fasting of Ramadan, and that it was “clear that we did nothing wrong”. The violence was the work of Muslim separatists, he said: there was no choice but to use force to stop them. He did, however, concede that “the means of conveyance may not have been as good and orderly as it should have been.”

The government has indeed faced an increasing challenge to its authority in southern Thailand from a combination of a disaffected local population suspicious of Bangkok politicians and a hard core of militants, who have proved enterprising at obtaining weapons. But Mr Thaksin's remarks explain why critics blame him for much of the tension: he does not distinguish between the two groups.

Mr Thaksin has favoured tough tactics by police and the army that have failed to curb violence and may succeed only in increasing local sympathy for militants. And he has repeatedly shifted responsibility for the south among senior ministers and generals, creating uncertainty about who is in charge and what they are doing.

The high death toll among detainees in army custody has, however, succeeded in focusing international attention on how Mr Thaksin's government is conducting itself in the south. The American State Department and Amnesty International have both called for an inquiry into the deaths. Concern has been expressed by the governments of Muslim Malaysia and Indonesia. The response it will draw from less moderate organisations in the Muslim world remains to be seen.

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Australia

Rip it up and start again

Oct 28th 2004 | SYDNEY
From The Economist print edition

Labor's defeat has unleashed an internal war

Get article background

WHEN Mark Latham led Australia's opposition Labor Party to its fourth successive election defeat on October 9th, his fortunes seemed to have hit a low point. Not so: they were about to fall lower. Over the next two weeks, as Mr Latham faced the daunting task of rebuilding Labor for yet another tilt at power, no fewer than six of his senior parliamentary colleagues announced that they were no longer prepared to serve in his shadow cabinet. The man in whom Labor had vested so much hope when it elected him party leader only ten months ago was suddenly facing a full-blown crisis over his own political future.

True, some who declined to be part of Mr Latham's team were doing so because they simply could not face the demoralising grind of another term in opposition. John Faulkner, Labor's leader in the Senate, the upper house of parliament, said he had “no petrol left in the tank”. In his role of dragging information from ministers and civil servants before Senate committees, he was one of Labor's most valued figures. But other senior people, such as the shadow finance minister, Bob McMullan, withdrew to the parliamentary backbench after bitter arguments with Mr Latham over the election loss.

As Mr Latham tried to assemble a new shadow cabinet, Labor's Byzantine power struggles between its left and right factions erupted, at one point almost stripping him of authority. He had wanted to appoint to the key post of shadow treasurer Julia Gillard, a feisty figure of the left, but pragmatically (and probably wisely) caved in to opposition from the right. Then the right tried unsuccessfully to scuttle Mr Latham's plan to keep Simon Crean, the leader he replaced, in his shadow cabinet.

Finally, as John Howard, leader of the conservative coalition government was being sworn in for his fourth term as prime minister on October 26th, Mr Latham announced his new team. Most attention focussed on the duo of Wayne Swan and Stephen Smith, both from the right, who will handle the crucial issues of economic policy and industrial relations. Labor has been vulnerable on both, particularly over its plan to re-regulate the labour market. Mr Latham says Labor now has to be more flexible with that policy.

Can Labor's election debacle be pinned on Mr Latham or its policies? Probably a bit of both. In the post-election recriminations, his colleagues have described their leader, anonymously, to the press as “domineering”, “narcissistic” and “resentful”. For his part, Mr Latham has declined to talk to journalists (including *The Economist*'s), and the respected author of “Latham's World”, a book that takes the most serious look yet at the man and his ideas. He has also snubbed business leaders, reportedly refusing to take a telephone call from Lachlan Murdoch, deputy chief operating officer of News Corporation, to brief him on the company's relocation from Australia to America—a development hardly without significance to the Australian economy. Mr Latham has since said this last was a “logistical problem” .

Still only 43, and facing his first full term as opposition leader with no obvious challenger, Mr Latham has the luxury of time to make up lost ground. He has indicated that he will start by trying to recapture Labor's credentials on economic policy. For that, there is a powerful precedent in previous Labor governments' free-market reforms, under prime ministers Bob Hawke and Paul Keating, which helped pave the way for the economic boom of the Howard years. But it is clear that Mr Latham's own party, not to mention the press (if only from afar), will be keeping him under close scrutiny.

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Japan

Shaken

Oct 28th 2004 | TOKYO
From The Economist print edition

Earthquakes remind Japanese that they live on risky terrain

Reuters

Quite big enough, thank you

IT WAS not the Big One that so many Japanese fear, but that is little consolation to the people of Niigata, a mountainous prefecture north of Tokyo. Three earthquakes, the largest measuring 6.8 on the Richter scale, struck the area in less than an hour on October 23rd, killing more than 30 people and injuring over 2,000 others. More than 100,000 people had to be evacuated. It was Japan's deadliest earthquake since a quake measuring 7.3 struck Kobe in 1995, killing 6,433 people.

The earthquakes, which swayed buildings 150 miles (250km) away in Tokyo, triggered landslides and tore up roads in Niigata, and destroyed or damaged nearly 6,000 homes and other buildings across the prefecture. The mountainous terrain further complicated relief efforts. The government used helicopters to airlift food and medical supplies and rescue those at risk. The quakes were also strong enough to derail a bullet train, the first time that has happened in the 40 years since Japan launched the high-speed rail network. The train was moving slowly and nobody was killed, but it added to the sense of nervousness and vulnerability across Japan.

The Niigata quake is not expected to hurt the economy too badly. Although many factories in the area are still gauging the damage, it is not a big industrial or population centre. The government is planning financial help for rebuilding. However, since the earthquake follows a string of nasty typhoons that have swept Japan in recent months, some economists worry that the natural disasters will take a toll on consumer confidence and spending. Japan's stockmarket fell nearly 2% on Monday, the first day of trading after the quakes, but sour global economic news had a similar impact on other Asian markets.

Outside Niigata, the disaster has reminded other Japanese how much havoc a big earthquake would cause if it were to strike a major city, such as Tokyo. A government committee gave warning this summer that there was a 70% chance that a big earthquake—between 6.7 and 7.2 in intensity—would hit Tokyo or surrounding prefectures in the next 30 years (a wide range, it is true). The government has long stashed away food and other supplies, and told more than 60 private firms to be ready to help if needed. But such a quake would probably claim thousands of lives and batter the economy.

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Israel's withdrawal from Gaza

Round one to the doves

Oct 28th 2004 | JERUSALEM AND GAZA
From The Economist print edition

Reuters

Sharon gets his vote, but the fighting, in parliament and on the ground, is bloody

Get article background

IT WAS, for once, a famous victory. On October 26th, Israel's parliament, the Knesset, endorsed the prime minister's plan to withdraw all the Jewish settlers from the Gaza strip and from a handful of settlements in the northern West Bank. Ariel Sharon won by a clear majority of 67 to 45, with seven abstentions. It was a rare moment of satisfaction for Israel's embattled leader. And one that did not last long: after the vote, his troubles intensified as he faced a new power struggle.

The vote tore apart the ruling Likud party, with 17 members voting against the “disengagement” plan and 23 voting for it. The prime minister relied on the centre-left opposition to achieve his majority. But he now faces an ultimatum from Likud ministers who are demanding a national referendum. The National Religious Party, a hawkish member of the current coalition, is on the verge of quitting and leaving Mr Sharon with an unstable minority. He has to find a new political formula that enables him both to stay in power and implement his plan.

Yet the vote's significance should not be underestimated. For the first time since Israel captured the West Bank and Gaza in the 1967 war, the Knesset has approved a plan to evacuate Jewish settlements in these territories. It is not yet a point of no return: there will be more wrangling in parliament and the cabinet before the actual pull-out, scheduled for next summer. But Mr Sharon believes that once the timetable is set, it cannot be stopped.

Mr Sharon told the Knesset that this was the hardest decision of his military and political life. The prime minister is no orator. In a monotonous voice, his spectacled eyes focused on the text, he used uncharacteristic pathos to explain the logic of his plan. He reminded legislators of the security dangers facing Israelis, and of the demographic threat that ruling over millions of Palestinians “who double their number every generation” is posing to Israeli democracy.

As the architect of the settlements, Mr Sharon spoke with sorrow of the settlers now bound for evacuation, of whose cause he was once the champion. “I sent [them] and I was a partner in this act, and many of them are my personal friends,” he said. But then he quoted Menachem Begin, the father of the Israeli right, who said in 1977: “You are wonderful pioneers. Yet you have one weakness, you developed a Messianic complex among you.”

With his majority secured by the parties to his left, the prime minister played tough with the Likud rebels, making it clear that any minister or deputy minister who did not support the plan would be fired immediately. Two arch-rebels lost their cabinet jobs. All the other Likud ministers voted Yes. But then came the ultimatum of four ministers, led by Binyamin Netanyahu, Mr Sharon's old rival and heir apparent, who said they would resign unless a referendum were held within two weeks. Mr Sharon replied that he would never surrender to threats, but allowed himself room for manoeuvre: “People may sometimes change their minds”.

With crucial votes looming over disengagement and the budget, Mr Sharon has to choose between three hard options. First, he could call a referendum. The trouble is, he might lose. His opponents are determined and well organised, while his supporters are a fragile alliance of lukewarm Likudniks and leftists. The second choice is calling an early election. But that is also risky: Mr Netanyahu might oust him as Likud's candidate. Even if he did not, the party's ambivalence over the Gaza pull-out would make campaigning hard. Third, and most favoured, is the option of bringing Shimon Peres's Labour party into the coalition. However, it would be hard to get Likud to approve this.

Mr Sharon's own preference would be to keep things as they are, and continue ruling over parallel coalitions. That way, he would get left-wing support for the pullout plan, and right-wing votes for the budget. But the widening Likud mutiny makes this seem unlikely for now.

On Wednesday, Israel commemorated the ninth anniversary (according to the Hebrew calendar) of Yitzhak Rabin's murder by a right-wing assassin. The public atmosphere reminds Israelis of the tragic days of 1995. At the time, Mr Sharon was one of that prime minister's loudest critics. Now he appears to be following the path of his former commander, a military man who fought the Arabs all his life, but at the moment of truth decided to compromise over land, only to face the enmity of Jews. Once again, there are threats to the life of a prime minister whose leadership is crucial to see through a controversial policy.

While the Knesset argued, the fighting on the ground in Gaza raged on. On Monday the Israeli army killed 17 Palestinians in Khan Yunis. This raid was a reaction to a barrage of mortar attacks on Jewish settlements, which was in turn a Palestinian response to Israel's killing of Adnan al-Ghoul, a top military commander in Hamas, the Islamist militia whose attacks on Israelis—and welfare work among Palestinians—have made it the most popular organisation in the strip.

Over the past year, Israel has killed dozens of Hamas's leaders, reducing to a trickle the torrent of suicide bombings Hamas once mounted against buses and restaurants inside Israel. With Mr Sharon now bent on quitting Gaza, might Hamas be ready to cease fire? It is possible: Egypt has long been trying to broker such a deal. For now, however, the only certainty is that if the fighting does continue to the very eve of Israel's departure, Mr Sharon's domestic foes can be relied on to use it in a final attempt to prevent the prime minister from beating a retreat they abhor.

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The Palestinians

Adieu, Arafat?

Oct 28th 2004 | RAMALLAH
From The Economist print edition

Who or what would succeed the Palestinian leader?

Get article background

AFP

After him, a maelstrom?

ON OCTOBER 27th, Yasser Arafat's health took a turn for the worse. Doctors were rushed to his battered headquarters in Ramallah amid a blizzard of conflicting rumours. The Palestinian leader's condition was either “critical” or “stable”, depending on which report you believed. Whatever the truth, the question was inevitably raised. If Mr Arafat were to die or be incapacitated, what next?

On paper, mechanisms for succession are in place. The speaker of the Palestinian Authority (PA), Rauhi Fattouh, would become acting president until a more suitable leader or leadership could be found. The most likely candidate would be the PA prime minister, Ahmed Qurei (also known as Abu Alaa). Mr Arafat's chairmanship of the Palestine Liberation Organisation would go to Mahmoud Abbas (Abu Mazen), himself a former PA prime minister. Both men were summoned to see Mr Arafat on October 27th, fuelling speculation that some form of succession was imminent.

In practice the handover would probably be messier. Since 2002, when Israel and America decided that they could no longer deal with Mr Arafat, his Fatah movement has been riven, with various factions seeking to strip him of some of his executive powers, though not of his pre-eminent symbolic role.

Last year, for example, Mr Abbas (then prime minister) tried to establish a government less bound to Mr Arafat's autocracy. It lasted three months. Mr Arafat and the Fatah “old guard” simply refused to relinquish real power. In July this year, the PA's former security minister, Muhammad Dahlan, mobilised his armed men in Gaza to protest Mr Arafat's appointment of his nephew as overall head of the Palestinian police forces.

Were Mr Arafat to go, it would perhaps embolden Mr Dahlan to bid for power. But the failure of his recent protest to spread showed that he has little support outside Gaza. Worryingly, no leader, young or old, commands broad support in the West Bank. With Mr Arafat gone, the PA might conceivably collapse into a collection of fiefs, ruled by local warlords.

Unless Mr Arafat recovers or new elections are held, the only man who could perhaps prevent a bloody power struggle is Marwan Barghouti, Fatah's West Bank general secretary and probably the most popular choice to succeed Mr Arafat. But he is currently in prison serving five life terms for his role in armed attacks on Israeli civilians. Israel is unlikely to free him.

Finally there is Hamas, the Islamist group that is Fatah's main rival for Palestinian hearts. Were Mr Arafat to go, Hamas would almost certainly not mount a challenge for national leadership. Buoyed by their powerful base in Gaza, their demands would be blunt and simple. They want a new “national unity leadership” that would seek to fulfil the aspirations that Mr Arafat—for most of his people—has for so long embodied: Palestinian self-determination, unrelenting resistance to Israel and the “right of return” for all Palestinian refugees.

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Western Sahara

Where the cause will not die

Oct 28th 2004 | LAAYOUNE
From The Economist print edition

Morocco has again balked at a referendum. But impatience is growing

Reuters

Some day, we'll have a country

THERE are settlers, and there are natives. Both say the land is theirs. International law says the natives are right. But might is on the side of the settlers, who have built an impregnable wall to keep out the refugees who fled the country when the newcomers arrived, three decades ago. Endless peace negotiations have got nowhere. Settlement continues, and the natives grow ever more angry and desperate.

This is not the West Bank. It is the Western Sahara, a sand-blasted wasteland the size of Colorado that is the subject of one of the longest, but most neglected, conflicts in the post-colonial era. The neglect may continue. The UN Security Council is likely to decide this week to extend again the mandate of the peacekeeping force that has been stationed in the territory since 1991, when the disputing parties agreed to a ceasefire. But a number of new factors suggest that the issue may not be so easily reshelved as it has been in the past.

The Western Sahara was once a possession of Spain. The native population, known as Sahrawis and then numbering fewer than 100,000, grew restless and began to fight for independence. Unluckily they started rather late. By the time Spain decided to leave, in 1975, its leader, General Franco, was dying. Unluckily, too, the Sahrawis' northern neighbour, Morocco, saw the underpopulated region as its own.

When Morocco's then king, Hassan II, massed 500,000 of his subjects on the border in a show of will known as the Green March, the fragile Spanish government capitulated. Morocco took control of the dusty capital, Laayoune, and of the nearby phosphate mines that were the territory's sole known resource aside from fish, camels and goats. But the Sahrawi guerrilla movement, Polisario, continued to fight, and with surprising tenacity.

The nasty desert war that lasted through the 1980s cost Morocco as many as 25,000 casualties. It uprooted half the Sahrawi population, pushing them into the desolate south-west corner of neighbouring Algeria, where some 160,000 of the refugees, and their children, still live in camps run by the Polisario's self-declared government-in-exile. An influx of Moroccans, lured by government perks and subsidies, turned the remaining Sahrawis into a minority in their own land. Those who complained were viciously suppressed. Hundreds simply disappeared.

Morocco eventually prevailed, by creating a barrier of sand, landmines and watch towers stretching over 2,000km (1,250 miles) across what it calls its southern provinces. But with few countries recognising Morocco's claim, and with the popularity of it waning inside Morocco as well, it seemed politic to seek a negotiated solution, based on the idea of a referendum that would allow the territory's people to choose their own destiny.

Since the 1991 ceasefire, and the insertion of a 230-man UN force, no fewer than three different referendum plans have been tabled. These successive plans have offered increasingly generous terms to Morocco, including allowing most of its settlers to vote, but each time Morocco has balked. It now says that it is willing to talk more, but only on the basis that Moroccan sovereignty should remain unquestioned. This led James Baker, a former American secretary of state, to resign after serving seven years as the UN's special envoy.

Morocco is insulated from international pressure by its close alliances with America and France. Laayoune today looks like a model Moroccan city, complete with bustling markets. The arrival of the internet and mobile phones has relieved the gloom of what had been almost total isolation. A UN-sponsored programme to allow brief visits from the exiles in Algeria has brought comfort to some Sahrawis, who in many cases had lost contact with their families for a generation.

But the city is also ringed by army camps and crawls with police. Human-rights abuses have lessened, as they have in Morocco proper since Hassan's death in 1999. Yet activists still risk beatings, show trials and travel bans. Sahrawis say that unlike Moroccans, they have yet to be allowed to air grievances publicly, or seek redress for past abuses. They also complain of being systematically cut out of government jobs in favour of settlers.

The simple fact is that Sahrawi dreams of independence have not faded. Both in Laayoune and in the far-off refugee camps, there is talk of taking up arms again for what everyone calls The Cause. In September, Morocco received a jolt when South Africa added its moral weight by recognising Sahrawi statehood. And at the UN, even America has declared impatience with supporting a mission whose initial mandate was to arrange a referendum, and which has so far cost $600m.

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Rwanda

Silence in the court of King Paul

Oct 28th 2004 | KIGALI
From The Economist print edition

Dissent grows quieter

Get article background

SOME of the supermarkets in Kigali, the Rwandan capital, ignored a recent ban on the use of plastic shopping bags. They were shut down. Greenpeace would doubtless applaud the government's zeal in protecting the environment. But many Rwandans see the incident as further evidence of their rulers' desire to control far too many aspects of their daily lives.

For as long as anyone can remember, Rwanda has been a top-down, do-what-you're-told kind of place. The genocide of 1994 was, some would argue, a last lashing-out by a despotic regime that was about to lose power and thought that, by killing all the Tutsis, it could hang on to it.

The current government, which came to power by overthrowing the genocidal regime, is much less oppressive than its predecessor. How could it be worse? But the president, Paul Kagame, who won an election last year with 95% of the vote, does not suffer dissidents gladly.

One of the most effective tools for silencing critics is to accuse them of “divisionism” or of propagating the “ideology of genocide”. This month, the European Union complained that these terms were rather vaguely defined. Rwanda's foreign minister retorted that Rwanda has only one native language, and everyone understands very clearly what is meant by the terms “amacakubiri” and “ingengabitekerezo ya jenocide”.

Well, maybe. But the law is interpreted rather sweepingly. Last month, Reporters sans Frontières appealed for the release of a radio journalist called Dominique Makeli, who has been in jail for ten years because, at the height of the genocide, when covering a “sighting” of the Virgin Mary, he reported that local people had heard her say: “The parent is in heaven.”

Prosecutors took this to mean that the then recently-murdered president, Juvenal Habyarimana, was in heaven. This, they said, implied that Mr Makeli approved of the genocide that Mr Habyarimana's followers were then carrying out.

In June Pasteur Bizimungu, the first president after the genocide, was sentenced to 15 years in jail for inciting civil disobedience. Until 2000 he was part of the ruling party, whose opposition to the genocide is beyond question. But then he quit and started to criticise it. His trial was widely considered a sham. And the list goes on. Several groups, including the Catholic church, are being investigated after a parliamentary report accused them of spreading the “ideology of genocide”. Many dissidents have fled the country.

In July, the government sacked the entire judiciary—all 503 judges—and appointed new magistrates. Dozens of elected local officials, including 47 of the country's 106 mayors, have also resigned in recent months, to be replaced by state appointees. The government says the changes are necessary to weed out incompetence and corruption.

Mr Kagame insists that nobody has the “moral authority” to accuse his government of authoritarianism after the world abandoned Rwanda during the genocide. This argument sways most foreign donors, who continue to pour money into the impoverished country.

An old Rwandan prophecy has it that a king will emerge from a great catastrophe. He will believe that he has brought peace, only to fall victim to further chaos, which will only be halted by a second king.

Rwandans take their prophecies seriously. Some see Mr Kagame, who has royal lineage, as that first king. But they would not dare say so in public.

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South Africa's economy

Pulling out the stops

Oct 28th 2004 | CAPE TOWN
From The Economist print edition

A new plan to kick-start growth

THIS week South Africa's finance minister, Trevor Manuel, told parliament about 40 times that the economy must grow faster. It is a point worth repeating. Annual GDP growth has averaged less than 3% for the past decade; not much more than the rate of population growth. Inflation has fallen, reflecting the government's sober macroeconomic policies. But unemployment has soared, leaving millions feeling short-changed by democracy. On October 26th, Mr Manuel unveiled a plan to lift growth to at least 4% in the near future and somewhat higher after that.

The core of the plan is that the government will spend more. The public-enterprises minister, Alec Erwin, says he will pump 160 billion rand ($26 billion) of state money into new roads, ports, energy and other infrastructure in the next few years. Mr Manuel promises billions more for various types of welfare: South Africa is already the most generous social spender in Africa. Salaries of teachers and policemen will rise too, to stop them looking to rich countries for better-paid work. To pay for all this, the government will borrow more. The budget deficit will rise slightly, to 3.5% of GDP next year—a one-off “hump”, says Mr Manuel.

At the same time some regulations are being chopped. A study in July by Goldman Sachs, an investment bank, said that removing controls on holding foreign currency—a relic of apartheid times—would boost investment and lift growth by a whole percentage point. Mr Manuel duly scrapped some exchange controls this week, making it easier for firms to keep more cash and investments offshore.

Does it all point to a shift in economic thinking? Mr Manuel hopes to keep his hard-won reputation as a cautious and responsible manager of the economy, but argues that his past tightfistedness has given him scope to loosen up a bit now. Most broad indicators of economic health are good. South Africa has a fairly stable currency, bigger foreign reserves, low inflation, rising private investment and carefree consumers. Credit-rating agencies are upbeat about the country. Last week one of them, Fitch, raised its assessment of South Africa from “stable” to “positive”. Others may follow.

The economy has grown for 45 consecutive quarters, the longest continuous expansion for four decades. The prices of South Africa's main commodity exports, such as gold and platinum, are buoyant. Barclays, a British bank, is expected soon to invest $3 billion in buying a South African bank, which everyone takes as a vote of confidence in South Africa's future.

Next month the official statistics agency will publish revised figures for the past five years' GDP. Analysts anticipate good news. The rumour is that the economy is 15-20% larger than previously thought, owing to previous under-counting of financial and other services. Statistical revisions always seem to bring good news, so some are sceptical. But Mr Manuel denies that anyone has leant on the bean-counters.

The markets believe him. His deficit spending appears to spook no one. Fair enough; he is hardly being profligate when compared with, for example, some European countries. The policy areas where the government is weak tend to be those outside Mr Manuel's control, such as restrictive labour laws and inadequate competition in the transport and energy sectors. Some South Africans think Mr Manuel might be popular enough to have a pop at the presidency in 2009, when Thabo Mbeki, the incumbent, stands down. But he is not black, and he says he has no interest in the job.

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Spiritualism in Kenya

The unkindest cat

Oct 28th 2004 | NAIROBI
From The Economist print edition

Tales of the improbable

A FRISKY feline is causing consternation in Kenya. According to reports in the local press this week, a ghost cat, commissioned by mischievous spirits, has been dispatched to the Kenyan countryside to gnaw off the genitals of men while they sleep.

Such reports are quite common. Kenyan men seem to lose their testicles to ghosts with alarming frequency. There is, of course, usually a rational explanation. A proud man will often prefer to blame spirits rather than admit the more humiliating truth that, after an evening of merriment on payday, he stumbled home inebriated and penniless to find his irate wife waiting with a kitchen knife in hand.

A belief in the supernatural runs deep at all levels of Kenyan society. Before elections in 2002, an assistant minister was reportedly advised by a witchdoctor that if he wore the same pair of red Y-fronts, unwashed, until polling day, he would win re-election. However, he forgot to tell his maid, who went and washed the lucky underpants. He lost his seat.

Miracle-workers do not have to be local to be popular. Benny Hinn, an American televangelist, drew over a million people to his last faith-healing extravaganza in Nairobi. The audience handed over their shillings and were wowed as the apparently crippled rose to their feet and skipped off the stage. But not everyone was so lucky. Three elderly Kenyans who had discharged themselves from hospital hoping for a miracle died during the rally. Ten others fell out of trees while watching the rally, and did not have their broken bones fixed.

Economists fear that the hiring of witchdoctors is adding to the already crippling expense of Kenyan funerals, the number of which has increased sharply thanks to AIDS. Your correspondent, however, saw one witchdoctor who more than earned his fee. A minibus meant to ferry mourners to a funeral in western Kenya refused to start. The mourners concluded that the body did not want to be laid to rest because a witch was on board. They called in a witchdoctor. After sprinkling some water and murmuring incantations, he duly identified the culprit, who was thrown off with her cargo of vegetables and chickens. The bus then roared off without further mishap.

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The European Commission

A knight in tarnished armour

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From The Economist print edition

Reuters

Far from reinvigorating the European project, the president-elect of the commission has run into deep trouble before he begins

JUST three months ago, José Manuel Durão Barroso was being hailed as the saviour of the European Commission—if not the European Union. After years of uncertain leadership under Romano Prodi, the Portuguese politician was greeted as just what the commission needed—a good communicator, tough and decisive.

This week it all went wrong. Mr Barroso was unable to get the European Parliament to approve his 25-member commission. Faced with the certainty of a negative vote, he chose instead to withdraw his team—promising to reshuffle it and then re-submit it to the parliament for approval some time in the next month.

The Barroso commission—which had been due to take office on November 1st—is now in limbo. The Prodi commission will have to lumber on, until the Barroso team can win parliament's approval. And Mr Barroso now faces serious questions about his judgment—and even his own future as president.

The parliament's main reason for rejecting the Barroso commission was the appointment of Rocco Buttiglione, an Italian politician, as the commissioner for justice and home affairs (see Charlemagne). The parliament's civil-liberties committee recommended against the appointment. Sarah Ludford, a member of the committee, calls Mr Buttiglione a “militant fundamentalist”, with views on homosexuality, abortion and women's rights that make him unfit to protect civil liberties in the EU.

Mr Barroso, however, refused to shift Mr Buttiglione. Instead he offered to set up a new committee to monitor civil rights, apparently confident this would suffice to persuade the parliament as a whole to approve his commission. By October 27th, it was clear he had miscalculated.

Had Mr Barroso sacrificed or reshuffled Mr Buttiglione earlier, he would probably have been able to limit the damage. But now the likelihood is that he will have to make major changes to his team. If the Italian government insists on retaining Mr Buttiglione as commissioner, Mr Barroso will have to find him a new job—preferably a minor post that does not require moral judgments—and find a new nominee to take the

justice job.

But several other commissioners may now need to be moved or replaced. The European People's Party, the conservative parliamentary grouping that backed Mr Buttiglione to the bitter end, will try to ensure that other commissioners are also shifted. Their preferred target seems to be Laszlo Kovacs, a Hungarian Socialist, nominated to the energy portfolio.

And although Mr Buttiglione was the only commissioner-designate to be formally rejected by the relevant parliamentary committees, several others made a bad impression and may now also be vulnerable. They include Neelie Kroes, the Dutch nominee who has been assigned the competition portfolio, and Mariann Fischer Boel, a Dane who has been nominated as agriculture commissioner. Both women were deemed to have given uncertain performances in their confirmation hearings—and they have been accused of conflicts of interest. Ingrida Udre, a Latvian who is nominated as commissioner for taxation, is also seen as unacceptably Eurosceptic by some in the parliament.

Mr Barroso might prefer it if the relevant governments simply withdrew their nominees and sent him new candidates. But delicate questions of national pride and political balance are at stake. For example, if three of the five commissioner-designates to lose their jobs were women, Mr Barroso's much-trumpeted feminist credentials would take a knock.

A Portuguese nightmare

Mr Barroso has no power to force countries to offer him a new candidate—and several may take umbrage if they are told that their national champion is not up to the job. The political groups in the parliament will also be watching carefully for any signs that commissioners from their end of the political spectrum are bearing too much of the brunt of a reshuffle. In a nightmare scenario for Mr Barroso, Italy might refuse to withdraw Mr Buttiglione—and the European Parliament might then reject any commission including him.

It is crucially important for Mr Barroso himself that he handle this tricky situation with skill and confidence. His reputation for competence has been badly damaged by the series of political blunders he has made since his appointment. Regardless of Mr Buttiglione's views on gays, it was a mistake to put a member of the government of Silvio Berlusconi in charge of the justice portfolio. Giving the French and German commissioners relatively unimportant jobs may also have deprived Mr Barroso of crucial support from two big countries that had not backed his nomination. Then Mr Barroso's reaction to the gathering crisis over Mr Buttiglione was slow and inept. He seemed not to realise his difficulties until far too late. Some French MEPs—including Pervenche Berès, head of the powerful economic-affairs committee—want Mr Barroso replaced.

Latent antagonisms, stemming from the fact that Mr Barroso supported the Iraq war and is regarded as an economic liberal, are coming to the surface. It still seems highly improbable that Mr Barroso will actually be forced to step down. The EU's 25 heads of government will be very loth to re-open a discussion that bitterly divided them earlier this year. But when Mr Barroso does finally take office, he risks doing so as a seriously diminished figure.

Andrew Duff, a British Liberal MEP, says he is extremely concerned about the possibility of “an enfeebled and wounded Barroso” for the next five years. To avoid that, the heads of government who nominated Mr Barroso must now help find an acceptable solution. They will have an opportunity when they meet in Rome on October 29th to sign the new European constitution. The choice of Rome as a venue was meant to be happily symbolic; that was where the treaty creating the European Economic Community was signed in 1957. But Rome now has a darker resonance for Mr Barroso: as the home of Mr Berlusconi—and the pope.

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Italian politics

A prodigal returns

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The old Commission president will be welcomed by many compatriots

Get article background

IT MAY surprise folk in Brussels, but there is a place where they can't wait for Romano Prodi to show his face—the leftist camp in his native Italy. Once the current shenanigans over the European Commission's leadership are over, the cheery professor will head off for his homeland as a less-than-brilliant bureaucrat—and arrive a returning hero.

To Italians fed up with the right-wing coalition led by Silvio Berlusconi, Mr Prodi's shortcomings are secondary. They recall him as the only man to have defeated the media tycoon-turned-prime minister on the hustings. They hope he can repeat the triumph he achieved in 1996 when he led his “Olive Tree” alliance to a general-election victory.

This week these hopes rose. Seven by-elections were held, to fill seats in the Italian legislature whose holders had stepped onwards to the European Parliament; to the delight of his foes, Mr Berlusconi's coalition lost everywhere.

Three seats changed hands, including one in Milan that had been occupied by Umberto Bossi, the head of the Northern League. That was a dismal result for a party, and government, that earlier this month satisfied an historic demand of the northern electorate by getting through parliament a bill offering a fair measure of decentralisation. The problem for Mr Berlusconi and his allies is that most of their voters no longer want a federal Italy as much as they want a prosperous one. Economically, Italy is lagging. In the second quarter of 2004, GDP rose 1.2% year-on-year, against 2% for the whole euro zone.

Mr Berlusconi's failure to revive the economy is the Achilles heel at which Mr Prodi will aim between now and the next general election, due in 2006 at the latest. But his greatest difficulty will be keeping his allies in line. The Italian left is even more fractured than the right. Its two biggest parties—the Democrats of the Left, which grew out of the old communist movement, and the oddly named Margherita (Daisy) party, largely made up of liberal Catholics like Mr Prodi—have agreed to nestle under the spreading Olive Tree.

But there are up to six other parties whose votes Mr Prodi may need—and they are yet to commit themselves fully. Some espouse views very different from his. Two are Marxist.

The leaders of all these groups are used to speaking their minds and unused to being silenced. Even the head of the Daisy party, Francesco Rutelli, was bold enough last month to snap the fragile chain of leftist unity and pick a fight with the professor. Mr Prodi proposes to call for a series of “primaries” next February in which, like a fairground boxer, he hopes to see off any rivals and confirm his leadership. But this exercise could expose differences, not heal them.

So far, his only likely challenger is Fausto Bertinotti, leader of the hard-left Refounded Communists, which won 5% at the last general election and could hold the key to a left-wing victory. Mr Bertinotti wants a proper contest. With so much ferment in the leftist camp, Mr Prodi may long for the relative calm and sanity of Brussels.

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Serbia and Kosovo

Pyrrhic victory

Oct 28th 2004
From The Economist print edition

Kosovo's election brings a peace settlement no closer

AP

A charade of a poll: protests in Belgrade

KOSOVO has just held an election, under the watchful eye of its international overlords, and the main winner is the prime minister of Serbia, Vojislav Kostunica. That was one of the oddest features of the ballot held on October 23rd in a province whose political future remains wide open, five years after NATO wrested the place from the Serbs.

One of the few uncertainties about the result of the election was how many of the province's 200,000 Serb voters (of whom only half now live in Kosovo) would heed the advice of Mr Kostunica and boycott the poll. In fact, almost all did. In Belgrade, some young wags summed up Serb feelings by staging a parody of the vote. That was good news for Serb nationalists but it may spell trouble for the province, where tension is rising palpably ahead of the final-status talks which are supposed to be starting next summer.

For now, the place remains in a sort of legal no-man's-land. In diplomatic theory, sovereignty over Kosovo is vested in “Serbia and Montenegro”, a union of the only two republics of communist Yugoslavia which are still yoked together. In practice, the province is run by the UN, which has been transferring power to local institutions—in other words, to the territory's ethnic-Albanian majority.

For the Albanians, this month's poll changed little: all ethnic-Albanian parties are solidly in favour of independence, and all those representing Kosovo's minority Serbs are solidly against. In the last provincial legislature, the Kosovo Serbs had 22 out of the 120 seats. Now they will have a maximum of ten seats, a quota to which they are entitled as a minority.

But will they take those seats up? Mr Kostunica feels the Serbs should not lend legitimacy to the province's “multinational” governance, because that was torn to shreds by last March's anti-minority violence which chased 4,000 Serbs and Roma from their homes. To participate in Kosovo's institutions would give undeserved credibility to the local Albanian leadership and their claim to be running a multi-ethnic show; that is the argument which Serb nationalists have used.

Whether they stayed away of their own free will or were intimidated, all but 1% of Kosovo's Serbs also

eschewed the ballot. For Mr Kostunica, this result was a nice riposte to his main rival, Boris Tadic, the moderate, pro-western president of Serbia, who had appealed to the Kosovo Serbs to go to the polls.

The prime minister needed some good news. In local elections held on September 19th, Mr Tadic's Democratic Party showed it was making a comeback from the doldrums it hit last year. Mr Kostunica's party suffered a drubbing, while the extreme nationalist Radicals also proved they are a force to reckon with.

Apart from point-scoring, does Mr Kostunica have a strategy? He probably wants to forestall talks on Kosovo's final status, because, despite this electoral fillip, he really has no credible proposal for the political future of the territory. At the moment he is pushing for a plan which foresees autonomy for Serbian areas within Kosovo, which would, for now at least, remain under international tutelage.

But the plan is unworkable. It foresees Serbs displaced from Kosovo being moved to majority ethnic-Albanian areas where they would live in new settlements, and even new towns. Once these areas have been “Serbianised”, then boundaries could be redrawn to link them up to other Serbian areas. Albanians reject this, seeing in it a bid to fix Kosovo's demography before splitting the province.

Meanwhile, the Kosovo Serbs have no legitimate representatives to speak on their behalf; their future is more precarious than ever. With no serious Serbian interlocutors ready to engage in talks, some Albanians may say it is time to dig up their guns; and now they may target not only Serbs, but western troops or international bureaucrats.

Will the Serbs break the logjam by accepting that Kosovo is lost? Dobrica Cosic, a respected ex-president of Yugoslavia, wrote recently that the current generation of Serbs should not pay for the loss of Kosovo by previous ones. The influential Belgrade newspaper, *Politika*, has said something similar. But such voices are marginal; as a result, ordinary Serbs still find that their future is yoked to a place where most have no wish to go.

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French Islam

In the tent or out?

Oct 28th 2004 | PARIS
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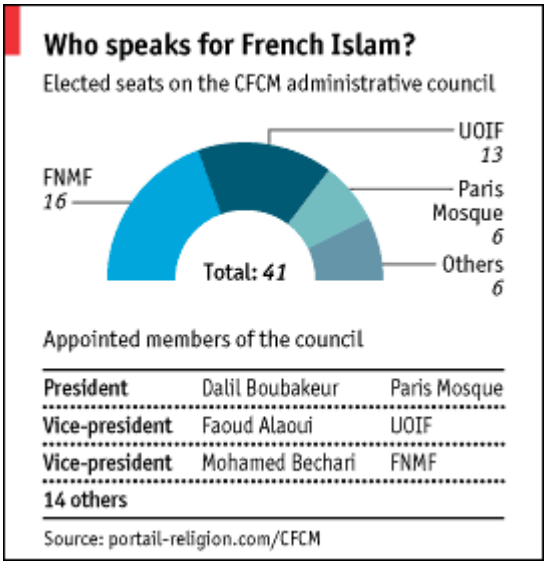
When French Muslims quarrel, the establishment argues too

Get article background



WHEN two French newsmen were seized in Iraq in late August, and their captors demanded that France repeal its ban on Islamic headscarves in state schools, it seemed a defining moment for French Islam. Shoulder to shoulder, the country's quarrelsome Muslim groups told their co-religionists in other places that the headscarf ban was purely a domestic matter. Official French Islam, it appeared, had come of age.

Barely two months later, the cracks are being torn open again. A power struggle is raging ahead of next April's elections to the French Council of the Muslim Faith (CFCM), the official body set up by the French government in 2003. Its president, Dalil Boubakeur, the moderate rector of the Paris Mosque, was appointed to the job after negotiations with Nicolas Sarkozy, then interior minister. So were his two deputies, respectively from the Union of Islamic Organisations of France (UOIF), and the National Federation of French Muslims (FNMF), both harder-talking groups. This carve-up of posts was considered a way of bringing all parties on board, under a cautious leadership.

This time, however, the elections are supposed to be open. The electors are some 4,000 representatives of over 900 mosques or places of prayer. Of the 41 elected officials in the CFCM's current governing council, 70% represent either the UOIF or the FNMF, while just 15% come from Mr Boubakeur's camp. The two tougher movements also triumphed in elections to the council's regional branches. In other words, under existing rules, Mr Boubakeur could well be swept aside in favour of more militant groups.

Mr Boubakeur has threatened not to stand for election if the rules are not changed. Voting weight is based on a mosque's surface area. This, he says, unfairly treats new buildings and established holy places equally. His Paris Mosque dates from the 1920s. Naturally, the other groups want the rules to stand. This battle is complicated by national rivalries. Mr Boubakeur, with Algerian links, was enraged when the FNMF's Mohamed Bechari, whose support is Moroccan, made a recent visit to an exiled Algerian Islamist.

Some are alarmed by the prospect of a hard-line takeover of the CFCM. Under Mr Boubakeur the council has ducked controversy, urging French Muslims to respect the headscarf law. (Only a handful of schoolgirls have so far been expelled for defying it.) By contrast, before the hostage crisis tempered such calls, the UOIF was telling schoolgirls to wear what they liked.

Though it denies any formal link, the UOIF is inspired by the Muslim Brotherhood, an international movement which calls for the “Islamicisation” of society. Some of its demands, such as separate hours at public swimming pools for girls, may sound innocuous. Yet in France, which is home to Europe's biggest Muslim population, some 5m strong, they clash with a staunchly secular tradition.

No wonder, then, that the argument over French Islam is not merely a quarrel between Muslims; it also divides France's politicians, who disagree over how far militant Islam can be co-opted. For critics of Mr Sarkozy (including moderate Muslims) the emergence of a tougher CFCM would be proof that he was naïve in establishing the institution and believing it could bring on board most shades of Muslim opinion.

Among French politicians, too, there are shades of opinion. Last year, Mr Sarkozy attended the UOIF'S annual congress, even though he was booed for saying girls must bare their hair on ID photographs. His successor as interior minister, Dominique de Villepin, kept away. Mr de Villepin, while accepting the usefulness of the CFCM, has focused more on expelling imams guilty for hate crimes. Mr Sarkozy puts a greater emphasis on bringing Islamist voices into the open.

Indeed, Mr Sarkozy—technically finance minister but keen to pronounce on wider matters ahead of taking up the leadership of the ruling UMP party in November—goes further. In a new book, he says France should amend the 1905 law which separates religion and state. If the state helps finance cultural and sporting groups, why not faith groups? He says this could separate French Islam from foreign sponsors, who now finance most mosques and religious schools. Such talk would seem natural in countries with a multicultural tradition. In France, it is dynamite.

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German politics

Playing it long

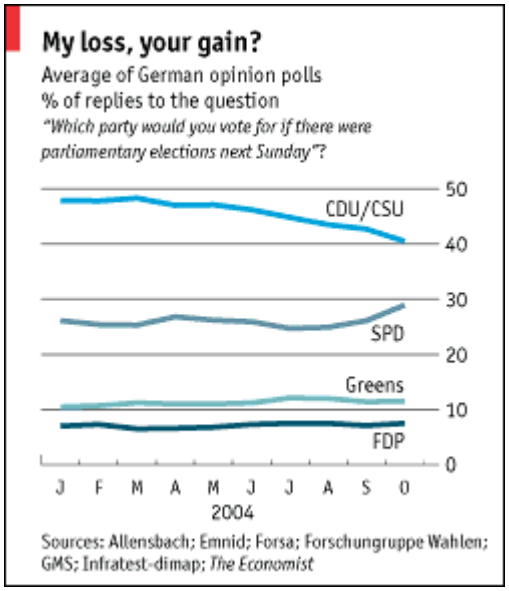
Oct 28th 2004 | BERLIN
From The Economist print edition

Both Chancellor Schröder and his main rival put deep reform before voters' whims

Get article background

IN POLITICS, as many a leader has learned, a week is a long time. And in Germany these days, 24 hours seems an eternity. Before the weekend, Chancellor Gerhard Schröder was being called a comeback kid after his Social Democrats (SPD) perked up in the polls. By the start of the week, pundits said they had peaked; Angela Merkel and her opposition Christian Democrats (CDU) were rising again.

Yet when you speak to Mr Schröder and Ms Merkel these days, both seem sanguine. “Opinions are increasingly based on momentary impressions and thus change ever more quickly. You can never be guaranteed that your popularity will remain high,” says the chancellor, puffing on a cigar. His rival, too, is unfazed by her ratings. She seems almost to have anticipated that her lead was destined to narrow.



Politicians need to be good actors, of course. But if Mr Schröder and Ms Merkel aren't excited, it is also because both see a longer-term mission—to advance reform in the teeth of public scepticism. Neither is easily distracted by daily ups and downs. “The more short-termist public opinion is, the more you have to stay on long-term track,” vows Mr Schröder—and Ms Merkel would agree. Not long ago, he would have caused guffaws by saying that. In his first six years in office, Mr Schröder seemed a lightweight who changed course easily. Yet his opposition to the Iraq war (resented in Washington but liked at home) and his refusal to ditch labour-market reforms—the so-called Hartz laws—have changed his image. His reforms have won some acceptance; he has gained freedom by quitting the SPD leadership; and he cuts more ice abroad. Finally, he has got some gravitas.

Paradoxically, the summer's protests in eastern Germany against the Hartz reforms have helped him. The rallies spurred him to correct one big failure—communication—and explain the reforms' purpose. The unrest, which has petered out, also enabled the chancellor to show his steadfast face; it did no harm when he was pelted with eggs. Could this political revival offer an opportunity to deepen the reforms? Easier said than done, says Mr Schröder. Much of his Agenda 2010 package, including the Hartz reforms, remains to be implemented and, if need be, corrected. Pushing ahead now, he adds, could backfire: the reforms under way are already weakening desire for change, and society can only digest so much at a time.

His rival is undergoing a Hartz experience of her own. She was brave enough, in late 2003, to put a sensitive issue at the top of her reform agenda: the financing of statutory health care, which in its current form is becoming a prohibitive tax on labour. Instead of health-care contributions based on a worker's wage, Ms Merkel wants a flat-rate premium, with tax-financed subsidies for the poor. At first, her party seemed to back this. But recently feet have turned cold. The leaders of the Christian Social Union (CSU), the CDU's sister party in Bavaria, oppose the flat-rate premium, calling it unjust and a hard sell. Edmund Stoiber, the CSU leader who was a candidate for chancellor in 2002, is using the issue to harass Ms Merkel—perhaps because he wants another go at the top job. The two centre-right parties have tried and failed to make up, which helps explain the opposition's recent drop in the polls.

Yet Ms Merkel seems unmoved, not least because she sees deep reform as a sort of shock therapy.

Compared with the speed of globalisation, she argues, Germany's reforms are too slow. Her health-care reform would show people they must rebuild the house, not remodel it. Germany now has the “choice between controlled change or an uncontrolled drop in living standards.”

Who will be left standing after the general elections in September 2006? Given the recent volatility, pundits are cautious. But for now, things look better for Mr Schröder. Both government and opposition are considered incompetent, says Manfred Güllner of Forsa, a pollster. This makes the popularity of their leaders an even bigger factor. Forsa says 45% of Germans now prefer Mr Schröder as chancellor, against 28% for Ms Merkel. In the summer, both still hovered around 35%.

Ms Merkel also has an image problem in her own party. She is a childless, remarried woman from eastern Germany, and a Protestant who had a life before politics: in all respects, the opposite of a typical west German conservative. And her rise has made a gang of regional leaders jealous. So Ms Merkel, some say, would find it easier to become chancellor than to be nominated for that job by her party.

Events in the state of Baden-Württemberg could give a strong sign of how willing Germany's conservatives are to give unconventional women a chance. On October 25th, after pressure from younger politicians, the state's premier, Erwin Teufel, said he would resign next April. There are two bidders to succeed him: one is Annette Schavan, an independent-minded lady. Most likely, the party will hold a primary of sorts to choose between the two candidates. A similar procedure may then be used to determine who will be candidate for chancellor.

Meanwhile, the economic fundamentals are against Mr Schröder—and he still could fall into what he calls the “gap” between the implementation of painful reforms and the harvest of benefits. Unemployment may reach a politically devastating 5m next year—because of slower growth, but also as an effect of the Hartz reforms, since more people will be counted as unemployed. Still, after a period in which Mr Schröder and his party were counted out, all bets are off. This is true not just for general elections in 2006, but also for next year's regional polls in Schleswig-Holstein and North Rhine-Westphalia. The scales may yet be tipped by external events. Some in the Schröder camp are said to be hoping George Bush will win another term—and give Mr Schröder something else to oppose, as firmly as he resisted the Iraq war.

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Charlemagne

Real politics, at last?

Oct 28th 2004
From The Economist print edition

Finally, there is a pan-European debate—but it may not help the EU

AMONG the roots of British wariness of the European Union, according to the late Hugo Young, was suspicion that it was all a “Catholic conspiracy, orchestrated from the Vatican”. That prejudice, the writer maintained, was held by many prominent Britons, including Margaret Thatcher.

It is true that many of the moving spirits of post-war European integration—Konrad Adenauer, Jacques Delors, Alcide de Gasperi and Robert Schuman—were devout Catholics. Their faith gave them a strong sense of the cultural and religious ties between Europeans that transcend national boundaries. The European flag of 12 yellow stars on a blue background also owes something to Catholicism. Arsene Heitz, who designed it in 1955, recently told *Lourdes* magazine that his inspiration had been the reference in the Book of Revelation, the New Testament's final section, to “a woman clothed with the sun...and a crown of twelve stars on her head.”

But Catholicism and the European ideal are in danger of undergoing a messy divorce. The immediate crisis has been caused by opposition in the European Parliament to the nomination of Rocco Buttiglione, an Italian politician and devout Catholic, as European Commissioner for justice and home affairs. At his confirmation hearings, Mr Buttiglione said he regarded homosexuality as a sin. He drew a clear distinction between a sin and a crime, and said that he would have no problems enforcing Europe's Charter of Fundamental Rights. But his remarks, combined with other allegedly disparaging comments on single mothers and working women, sparked outrage from some parliamentarians; such a man should not hold the justice portfolio, they said, in an EU that calls itself a “union of values”.

The Buttiglione backlash has sparked a counter-backlash from top clerics. Cardinal Renato Martino, head of the Vatican's Council for Justice, complained of an anti-Catholic “inquisition” (a rather unlikely turn of phrase, perhaps, for a Roman prelate) across Europe. John Wyles, a Brussels-based commentator, complained in *European Voice* that the European Parliament was raising fears that it was “furtively seeking to introduce a modern equivalent of the 1673 Test Act in Britain that barred Catholics from public life.” In an attempt to calm tempers, the commission's president-elect, José Barroso, declared that “a holy war is the last thing Europe needs”.

No such conflict is imminent. But the Buttiglione imbroglio was not a pure accident. Rather it was an

expression of the tension between secular and religious views of “European values” that has been building for some time. During the two-year-long effort to write a constitution for the EU, one of the most fraught issues was whether to insert a reference to Europe's Christian roots into the statement of European values that serves as the constitution's preamble. Despite the Vatican's strenuous lobbying, Christianity did not make it into the final version of the constitution agreed to last June. Then there are the social issues. Mr Buttiglione's comments on homosexuality also came at a sensitive moment, with arguments raging in many parts of Europe over gay marriage. Spain's Socialist government has announced plans to legalise such unions—and met fierce clerical opposition. This week *ABC*, a conservative Spanish paper, said that the church felt “under attack” from the “militant secularism” practised by the new government.

There is certainly a feeling that social tides in Europe are moving against the conservative values championed by Pope John Paul II—and by Mr Buttiglione, the pope's friend and biographer. Polls in Spain show 60% support for the gay-marriage proposal. Europe as a whole is a secular place, compared with America. Europe's landscape, architecture, customs and place-names may be steeped in Christian history, but few Europeans go to church. In a Global Attitudes survey carried out by Pew, an opinion-research company, in 2002, as many as 59% of Americans said that religion was “very important” to them. Just 27% of Italians, 21% of Germans and 11% of French citizens said the same. Over abortion, the transatlantic gap is wide and widening. In America, the political initiative lies with those who want tighter curbs; in most parts of Europe the opposite is true.

A war of ideas

While some supporters of “ever closer union” in Europe worry about losing the support of the Catholic church, others welcome the Buttiglione battle. They say that it is high time that some real politics was introduced into the European Union. Only by arguing about values, rather than economics—so the theory goes—can EU politicians engage ordinary citizens, and convince them that the Union does more than regulate the curvature of bananas. The federalists hope the battle of Buttiglione will mark the coming-of-age of the European Parliament. The parliament, as they see it, did what parliaments are meant to do—hold the executive to account. Nor did the European Parliament divide along national lines. Rather, the division was ideological, with conservatives backing Buttiglione and the commission, and socialists, greens and most liberals coming out against. This looks like real pan-European politics, rather than simply another forum for international horse-trading. As federalists see it, elected politicians have asserted themselves against the bureaucrats; European democracy has begun, not before time, to shove aside elitist technocracy.

Maybe so. But for the Union, there are risks as well as opportunities in this week's angry debates. One reason for the success of European integration over the last 60 years is the fact that it never aroused much emotion among ordinary folk. That may no longer apply. Perhaps the European Parliament has gained new admirers this week. But by rocking the boat, and upsetting one of the traditional backers of European integration, the Catholic church, it has forfeited the benefits of quiet obscurity.

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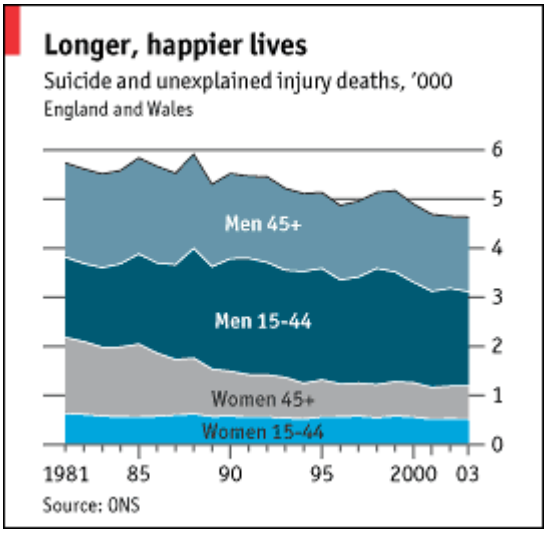
Suicide

Might as well live

Oct 28th 2004
From The Economist print edition

Suicide is increasingly difficult—and increasingly rare



CONVENTIONAL wisdom suggests that more Britons ought to be ending their own lives. Divorce rates among the middle-aged have been climbing for the past three decades. Hospitals report rising levels of drug and alcohol abuse, together with other kinds of self-harm. Add to that familiar drawbacks of modern life such as work-related worries and social isolation, and a rise in suicide might be expected. Yet clifftops like Beachy Head have never been quieter.

Last year, the rate of suicides and unexplained deaths fell to 84 per million—the lowest since the middle of the second world war. Figures from the World Health Organisation show that Britons are less likely to take their own lives than Americans or anyone else in Europe, excepting the famously sanguine inhabitants of Greece, Italy and Portugal. And those countries may be under-reporting, reflecting stronger taboos: striking increases in recorded suicides have been noted in nations such as Ireland and Spain, where religion and tradition are losing their grip.

The downward trend is particularly striking among 45-to-74-year-old women, whose suicide rates have fallen to one-third the levels of the late 1960s. Divorce rates may have soared and tensions between family and career sharpened—but women are less desperate, not more.

Young men initially proved less adaptable, killing themselves in ever increasing numbers from the 1970s onwards. Now, though, that trend appears to have reversed. Suicides and unexplained deaths among 15-to-34-year-olds are down 31% from a 1998 peak. That is particularly puzzling, since they continue to drink more and marry less. “Many factors associated with young men's suicide are headed in the wrong direction,” says David Gunnell, a psychologist at the University of Bristol.

Why the scarcity of suicides, then? Economic good times may be part of the reason. But male suicide rates went up during the boom years of the mid-1980s and late 1990s, which suggests that cash does not necessarily lead to contentment.

Nor do pills. Doctors are much more likely to ask about, and to try and treat, suicidal feelings than in the past, according to Dinesh Bhugra of the Royal College of Psychiatrists. But the cure that doctors lean on most heavily—mood-altering drugs—works only when pills are taken regularly for long periods. People suffering from depression find that difficult; to make matters worse, some of the drugs are lethal in high doses. In 2001, 148 women died after taking an overdose of antidepressants.

The real reason why suicide has become rarer may have little to do with falling demand for an end to suffering. Rather, it has to do with reductions in supply. Whether or not suicide has become less appealing, it is certainly harder.

“Access to lethal methods has a large impact on suicide numbers,” says Lars Mehlum, a suicidologist at the University of Oslo. Suicide rates are high in countries where there are lots of guns, like America, Switzerland and Norway, and among professionals who have access to drugs, such as doctors and veterinary surgeons. Particularly favoured are methods that are not painful, not disfiguring and—perhaps most important, given the ambivalence felt by many would-be suicides—not absolutely guaranteed to

result in death.

British women have struggled to find an appropriate way out ever since toxic coal gas was phased out in the early 1970s. Some moved on to sedatives and painkillers, but those too have become less dangerous. New regulations introduced in 1998 made it harder to get hold of large numbers of pills; at the same time, drug companies switched from bottles to blister packs. The result was a 34% drop in deaths from paracetamol poisoning.

Men rarely take pills, but their favoured methods have become less lethal, too. In the 1980s, there was a vogue for fitting hoses to car exhausts and feeding fumes through the window. Since the early 1990s, though, catalytic converters (fitted to about 80% of cars currently on the road) have reduced carbon monoxide emissions enough to allow for reconsideration. Gas led to the suicide of 672 men in 1996, but just 265 in 2002.

Unfortunately, there are signs that the desperate and determined have learned a new way out—or, rather, rediscovered an old one. Deaths from hanging and suffocation have risen in recent years, and accounted for 52% of all suicides in 2002. Hanging is extremely difficult to prevent, as evidenced by the fact that even prisoners manage it. As Mr Gunnell points out, it is also more lethal (and more painful and prolonged) than many suppose. So the trend is unnerving. Supply-side measures have worked so far, but it will be an irony if people learn more dangerous expedients as a result.

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Marketing

Sex doesn't sell

Oct 28th 2004
From The Economist print edition

Old taboos are disappearing. Bad news for lazy advertisers

“HANDS up anyone here who doesn't masturbate.” No blushes were spared as London's Institute of Contemporary Arts (ICA) played host on October 25th to *Slit*, a new literary journal devoted to sex. That was part of ErotICA, an event that aimed to put “some of the finest pornographic minds together with artists and writers.”

At first sight, modesty seems a lost cause in Britain. Last week film-classification censors passed, uncut, the most explicit film in British cinema history: “9 Songs” by Michael Winterbottom, which consists largely of unsimulated sex scenes. A new glossy and supposedly upmarket sex magazine aimed at women, *Scarlet*, aims to fill the gap left by the recent demise of the *Erotic Review*. The number of licensed sex shops has tripled to 300 in the past decade. The latest to open, this week in Birmingham, is Hustler Hollywood. Run by Theresa Flynt, daughter of a leading American pornographer, it will be Britain's largest. The store will compete with Ann Summers, a firm whose sex-paraphernalia shops have multiplied from 40 to 117 in the past four years, and Boots, the nation's leading pharmacy chain, which now plans to start selling sex toys.

That's an interesting trend. But though life may be increasingly exciting for the sex-obsessed, in the wider population advertisers are finding that sex no longer sells the way it used to. “There's a lot less flesh flashed around in advertising,” says Claire Beale, editor of the trade paper, *Campaign*. “We're in a much more subtle era,” says Nicola Mendelsohn of Grey London, an agency owned by WPP, a communications conglomerate. “People are looking for things that are more real, more wholesome, more pure.” “Using sex to sell has been overdone and has reached saturation point,” says Paul Gostick of the Chartered Institute of Marketing (CIM).

Even agencies that specialise in striking sexual themes, such as TBWA, which invented the controversial FCUK logo for French Connection, a clothing brand, agree. “There has been a shift. We went through an era where sex was a means of shocking consumers, and that doesn't work any longer,” says Andrew McGuinness, the agency's chief executive.

Commercial and academic research supports the thesis. Only 6% of consumers surveyed by the CIM said they were positively influenced by sexual images in advertising. D_Code, a study of young consumers by HeadlightVision, another bit of WPP, concluded that they found sexually explicit advertising boring and repellent. Allison O'Keefe Wright, the report's editor, blames desensitisation. “In the past a brand could use sexual imagery to grab a young person's attention, now it's just part of the background. Subtle cues and suggestions are much more powerful.” Nostalgia, too is growing, stoked by fears of terrorism and war: “Playful, child-like imagery is having a lot of impact,” she says.

Women consumers are the most likely to be turned off by the cheesy and the explicit. Ms Mendelsohn's ad for a specialist shaving device for the female groin used a neutral silhouette rather than overt sexual imagery, which would have been “the last thing they wanted”. That made the shaver the best-selling electrical product of the past 12 months, she says. The same campaign is now planned for America.

Peter Frost, whose company, Proficiency2020, ran a conference last month (“Rethinking Pink”) on selling to women consumers, argues that crude sexual images are both distasteful and increasingly irrelevant. “When you see an office copier with a girl draped over it, it titillates 10% of the customers and alienates the rest.” Moreover, he says, many male consumers also like their advertising humorous and informative. He plans similar conferences in America next year.

Advertisers used to the sex-soaked style of continental Europe are struggling to make the shift. So are

some home-grown ones. EasyJet, a British budget airline, attracted ridicule for a poster it produced earlier this year featuring a bulging bikini top and the slogan “Discover weapons of mass distraction.” Even Mr McGuinness of TBWA, no stranger to controversy on questions of taste, terms it “crass”. It was also muddled, he says, as the airline was simultaneously marketing itself as a cheap alternative for business travellers.

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An army sex scandal

Rough justice

Oct 28th 2004
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The army fails to uncover abuses

LESLIE SKINNER, a predatory sado-masochist in the Royal Logistics Corps, must have thought he was in heaven. In 1996, he was convicted by a court martial of exposing himself to a teenage boy; the army then sent him to Deepcut barracks, in Surrey, to train teenage boys.

There, with his trusty riding crop and canes, Mr Skinner made his dreams come true. He was sentenced to four-and-a-half years in prison on October 22nd, after pleading guilty to five indecent assaults on four soldiers.

Deepcut has a troubled history. Between 1995 and 2002, four soldiers based there died of gun shots. The army ruled the deaths suicides, but admitted that recruits had been bullied. To the relatives' fury, the government refused to hold an independent inquiry.

The cases of Mr Skinner and the alleged suicides were not related. But together they suggest a failure of army justice. Mr Skinner was convicted of a sexual assault by a second court martial in 1998, jailed for six months and kicked out of the army. But he would not have been fat-headedly sent to Deepcut had the first court martial done more than gingerly reduce him to the ranks. The deaths at Deepcut, meanwhile, may indeed be suicides, but that does not explain the army's initial reluctance to investigate them or address the bullying which could have been their cause.

One possible reason for these errors is a muddying of the waters in recent years between civilian and military justice. Largely in response to European human-rights law, the power of commanding officers to dish out summary justice has been diminished and the rights of defendants increased. Prosecutions are now in the hands of civilian lawyers, not military officers. A new draft bill to co-ordinate military justice across the three services, introduced to Parliament this week, would safeguard defendants' rights even further.

Yet the army, almost by definition, cannot live by civilian rules. Commanding officers have become increasingly reluctant to hold courts martial, or to mete out stiff penalties when they do. When confronted with prying civilians, soldiers will sometimes club together to protect their own. The old rules did not sound pretty to civvie ears, one old soldier admits; but they worked.

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Political food

Mullah moolah

Oct 28th 2004
From The Economist print edition

Challenging the imperialists is getting easier

BOYCOTTS are a good weapon, but you need something to switch to. Ditching French products for American ones (or vice versa) is easy. But for prickly Muslims, alternatives to infidel products are scanty.

There may be a gleam of hope—at least as far as carbonated soft-drinks are concerned. Britain's Muslim grocery stores now stock a bewildering variety of Islamic alternatives to those most American of products, Coca-Cola and Pepsi.

The most famous is Mecca Cola, invented by Tawfik Mathlouthi, a French-Tunisian businessman who also runs an Islamic radio station. It is aimed at those who resent “Coca-Colonisation,” but who like the free and easy image Coke conveys. “There's a strong love-hate relationship with America in the Muslim world,” says John Band of Datamonitor, a market research firm. “Mecca Cola is great for tapping into that. You can drink an American-style drink while at the same time being subversive.”

But truly committed quaffers may prefer Qibla Cola, brewed by a firm in Derby. Despite its name—which refers to the direction of Mecca, the holy city that Muslims pray towards—it plays down its Islamic credentials in its official literature, preferring to talk about charitable donations and opposition to “injustice and exploitation”. But Zafer Iqbal, its boss, has spoken out about the “unjust colonialist war” in Iraq (the company says that this is merely his personal opinion). Some of its directors, a publicity-shy bunch, are sympathetic towards Hizb-ut-Tahrir, an Islamist organisation that wants to establish a worldwide caliphate.

Then there is Zamzam Cola, an Iranian drink named after a holy spring in Mecca. Despite being based in the world's only Islamic theocracy, Zamzam is the most determinedly secular of the lot. Its promotional material talks boringly of market share and production capacity, not *sharia* and the Great Satan.

The market for political food is not limited to fizzy drinks, though. Those moved by the plight of Palestinian farmers can now buy Zaytoun olive oil, harvested from groves on the West Bank. Demand has been strong, say importers: the first two shipments have been pre-sold to eager distributors and shops.

No company would complain about excess demand. But it can cause problems: Mecca Cola wanted to have its official British launch “before Christmas”, but after selling every drop, this has been postponed until January, *inshallah*.

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Germanophobia

War bores

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Tiresome lingering prejudice

JOHNNY, a bright bilingual 11-year-old, was proud to show off his German at his school's languages day last week. He was less pleased then to be teased as a “Nazi”. His grandfather, who was at the same school during the war, is puzzled: anti-German prejudice then was much less, he recalls.

Despite decades of shared peace and prosperity, British prejudice about Germany is matched only by ignorance. It's a perennial problem, but has recently bubbled up again. Last week Joschka Fischer, the German foreign minister, complained on a visit to London that British images of his country were still dominated by “the Prussian goosestep”. The German government invited a group of British teachers, including one who had taught German history for 30 years without ever visiting the country, for a luxurious freebie to Berlin. Officials there tried, with limited success, to persuade them that lessons about Germany could cover something other than tales of mass murderers and heroic Brits.

Such efforts have to struggle with a national idea increasingly dependent on a half-forgotten history. Britain is just starting its annual wallow in nostalgia for wartime simplicities in the run-up to Remembrance Sunday on November 14th. The red poppies sold to raise money for ex-servicemen, originally a symbol of loss, have become a badge of patriotism. The columnist Simon Heffer, born in 1960, thundered in the *Daily Mail* this week that “the Germans must never be allowed to forget their evil past.” Fat chance.

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Lending

Shark tale

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New competition means doorstep lenders are in trouble

FOR the poorest borrowers, offers of unsecured credit don't so much land on the mat as walk through the door. Though doorstep lending is now dominated by respectable listed companies, the idea persists that their agents are wicked people who gull customers with vouchers or food hampers. The Office of Fair Trading is investigating the business, which it says may be uncompetitive. New rules on consumer credit, which come in this week, are partly aimed at making it more transparent.

That picture is unfair. Despite a credit boom, which has seen a big increase in low earners' unsecured debt relative to their income, the doorstep lending market is flat. Gross advances actually declined by £36m last year. Datamonitor, a research firm, reckons the market will shrink by 1.7% a year until 2008.

This is partly thanks to the economy's buoyancy. Doorstep lending, or home credit as it is termed by the trade, is a counter-cyclical business: in a downturn, bad debts pile up, blackening credit histories. Doorstep lenders specialise in lending to people who have bad credit, or none at all. So when times are good, they struggle. Datamonitor estimates that the number of “non-standard borrowers” (meaning people who would be refused credit in an ordinary high-street bank) has dropped by over half a million in the past five years.

There is new competition too. Provident Financial, which accounts for just under half of Britain's home credit market, says that 30% of its customers also borrow on overdrafts and a third have credit cards. Most of the major credit-card companies now have products for non-standard borrowers, charging high rates to begin with, which prompt repayments bring down.

Asda, a supermarket chain, is launching credit cards through its stores graded for six different risk categories. Someone who starts at the bottom, borrowing on a card with an annual percentage rate of 28.8% and a £250 limit, can eventually move up to a proper credit card.

That leaves doorstep lenders accepting more bad risks, which has hurt their business. They are now looking for other ways to lend, including credit cards. But Provident Financial is also looking abroad. It already has 1.4m customers in central Europe. According to Robin Ashton, its chief executive, dislike of form-filling in post-communist countries means its agents are greeted with open arms.

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Fringe politics

Cranks' corner

Oct 28th 2004
From The Economist print edition

Two successful fringe parties, both beset by internal squabbles

AFP

EXTREMISTS normally do dismally in British elections, reflecting perhaps a national distaste for ideology that trumps even the habitual affection for the underdog. Another reason is that fringe parties have a habit of falling apart once they start getting anywhere.

Respect, an unlikely coalition of anti-war Muslims, Trotskyists, and a renegade Labour MP called George Galloway, may be a case in point. Formed in January, it holds its first conference in London this weekend. It has done well enough to hurt Labour in some inner-city parliamentary seats: it polled around 13% in the 18 local council elections it contested in June. In two more recent elections in east London, it won one seat outright, and in the other took enough votes from Labour to hand victory to the Conservatives. In some parts of Birmingham, it gained around 30% of the vote in a parliamentary by-election.

Respect's problems stem not from the ideological gymnastics required to unite fervently secular leftists with strictly pious Muslims. The friction is with other left-wingers, denting Respect's hopes of attracting broader support from those disillusioned with Labour's rightward drift.

Trouble started when Abdullah Muhsin, a member of the Iraqi Federation of Trade Unions (IFTU), told the Labour Party conference that British troops should stick around in Iraq. Mr Galloway attacked Mr Muhsin, saying that the IFTU had collaborated with the British government. The row boiled over at the European Social Forum in London last week, a lefty green shindig, where protestors linked to Respect stormed a debate involving another member of the IFTU. That leaves other leftists fuming: hatred of America is all very well but workers' solidarity matters too. As a result, some unionists are cutting ties with Stop the War, a group that largely overlaps with Respect.

It's a similar story with Respect's right-wing counterpart, the UK Independence Party (UKIP). This hardcore europhobe party has been bothering Conservative strategists. It squashed the Tories in the Hartlepool parliamentary by-election; in June, 12 of its candidates became members of the European Parliament (MEPs). It is unlikely to win parliamentary seats under Britain's first-past-the-post electoral system. But it could split the Tory vote in crucial marginals, just as Respect threatens to do with the Labour Party.

But UKIP is now undergoing a messy leadership tussle. Its star turn, Robert Kilroy-Silk, an egotistical ex-Labour MP and television idol, wants to replace the party's dull leader, Roger Knapman. On Wednesday, the party's MEPs were due to discuss booting Mr Kilroy-Silk out, but he spoiled their fun by announcing

first that he would no longer work with them. Who cares about the voters when you have your own side to fight?

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Economic growth

A bump, not a slump

Oct 28th 2004
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The recovery stumbles but still has legs

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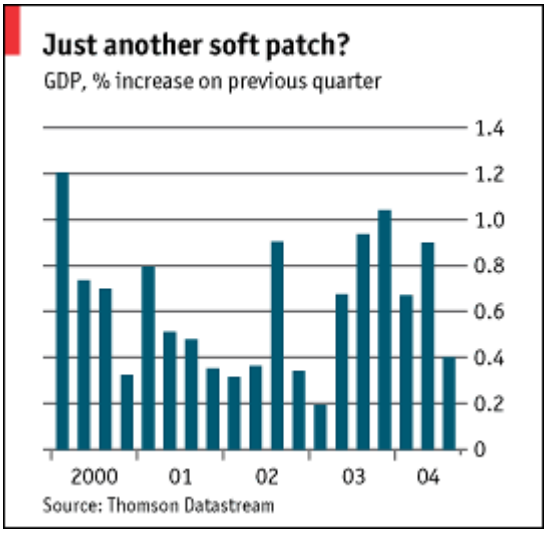

RACING ahead in the spring, growth in the British economy picked up to 3.6% in the year to the second quarter, the fastest in almost four years. The financial markets were on alert for aggressive interest-rate hikes by the Bank of England.

But over the summer, the recovery has stumbled. According to figures released on October 22nd, GDP grew by only 0.4% in the third quarter. Although that left output 3.0% higher than a year before, it was the slowest quarterly pace of expansion since the start of 2003.

The worry is that the slowdown will persist. The main reason why the economy performed poorly in the third quarter was that industrial production fell by 1.1%. This dragged GDP growth down to 0.4% despite a respectable rise in service-sector output of 0.8%.

A new survey from the Confederation of British Industry (CBI) suggests that manufacturing will remain weak. Business optimism fell to its lowest level for over a year. The CBI's report shows that the rising oil price is taking its toll on industry. Margins are being squeezed as the cost of fuels and raw materials surges.

Consumers also appear to have pulled in their horns over the summer months. Retail sales, which represent about 35% of household consumption, have been growing much faster than total consumer spending. In the first half of the year they increased by 1.9% each quarter. But in the third quarter, this heady expansion slowed to a more modest pace of 1.1%.

A bounceback in consumer spending looks increasingly unlikely as the housing market weakens further. The number of mortgage approvals by banks for house purchase was 30% lower in September than a year ago. House prices have started to decline, according to the Nationwide building society. They fell by 0.4% in October, the first monthly fall for three years.

Both on the external and the home fronts, then, a menacing pincer attack on the recovery appears under way. But while the risks of a more sustained slowdown have increased, they should not be exaggerated. In real terms, oil prices are much lower than at previous peaks and the economy uses oil less intensively than before. As a net oil exporter, Britain is less vulnerable to higher prices than other major economies that rely on oil imports.

If house prices continue to fall, this will undoubtedly knock economic growth. But the impact is likely to be much less serious than in the last housing-market bust in the early 1990s because the economic fundamentals are much sounder. Inflation is low and stable. The economy is operating at around capacity, whereas it had become dangerously overheated in the late 1980s.

There are also grounds to suspect that the slowdown in the third quarter will prove a blip. Oil output fell because of essential maintenance being carried out on oil rigs. In any case, economic growth often jumps around, and there is nothing unusual in the occasional sluggish quarter. Furthermore, initial GDP growth

estimates are generally revised up over the course of the following three years by a tenth of a percentage point.

There are still strong forces sustaining the recovery. Labour's public spending spree continues to support demand. Investment has been strong and will be helped by recent declines in long-term interest rates. Despite the worries about the housing market, consumer spending is unlikely to nosedive while unemployment remains low and real incomes carry on rising. The upswing may have peaked but the recovery is not over yet.

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Farmers

Skimmed and sour

Oct 28th 2004
From The Economist print edition

Dairy farmers are fed up with low prices

BE READY for another season of spilt milk. Last year, after retailers raised prices, dairy farmers were on the streets outside processing plants and supermarkets demanding their share. They won part of it. But this year, faced by a series of imposed price cuts, they have been on the road again: last week blocking distribution centres in Grangemouth, Wakefield, Wigan and Didcot, this week at Lutterworth and Chepstow. More will follow, says Farmers for Action, the militant group leading the protests.

The cuts spring from big shifts in the milk-supply chain. Prices are set by the fiercely competitive supermarkets. The three big processors that supply them with milk, butter and the like are no bargaining match for them. The dairy farmers, 20,000 of them in mainland Britain, are in the weakest position.

Their business began to curdle in May, when Asda decided to buy all its milk from Arla, the biggest processor. Sainsbury's then cut out Arla, and Tesco in turn decided it too wanted only two main suppliers, the loser there being the number two, Dairy Crest. The big retailers deny they arm-twisted the processors in all this. But—by coincidence, say believers in flying pigs—farm-gate prices promptly fell.

Against shop prices of 58p a litre, Arla's 0.4p cut since September or Dairy Crest's 0.25p this week look small. But to farmers they are big. A typical producer, with 100 cows, has recently been getting only 18.5-19p a litre. A cut of 1p a litre means missing out on some £5,000 a year. With talk of more pressure on prices ahead, no wonder men like David Handley, leader of Farmers for Action, who has 80 cows on his small farm near Monmouth, are mooing furiously.

Yet what can they do? About half the farmers are in co-operatives. The three biggest of these have gone downstream into processing. One, Milk Link, began that in early 2002. Dairy Farmers of Britain (DFB) has just bought an entire processing business for £75m, putting it level with that trade's number three, Robert Wiseman. The third, First Milk, is buying 15% of Wiseman's shares. And all three united a year ago to save a farmer-owned processing plant in Wiltshire. But it is expensive: DFB's members are paying in 1p a litre, returnable only if they retire or quit, to finance its expansion. And vertical integration merely shifts the problem: a farmer-owned processor is in the retailers' grip like any other, and has to adjust farm-gate prices accordingly.

When business fails, try direct action. The protesters have warned Asda that unless they get a better deal, they will disrupt its distribution centres in the run-up to Christmas. Mr Handley's resonance is nowhere near that of José Bové, the moustachioed French rural populist: most Britons feel closer to Tesco than to *la terre*. But his group is the noisy vanguard of a wider farmers' movement, determined to be heard.

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Bagehot

The thing that won't go away

Oct 28th 2004
From The Economist print edition

Tony Blair has found a way to deal with the awful prospect of a European referendum: not thinking about it

Get article background

IT WAS supposed to be a great day. But the grinning and back-slapping of the heads of government who will assemble in Rome on October 29th to sign the draft European Union constitutional treaty will be even more forced than usual.

For President Jacques Chirac of France and Chancellor Gerhard Schröder of Germany, the document falls far short of their integrationist ambitions. For the leaders of most of the smaller countries, it gives too much power to the "bigs". But for Tony Blair, it's much worse than that. Even though Britain's negotiators (to the irritation of the French and Germans) managed to get much of what they wanted, the document that Mr Blair will put his name to could quite probably cost him his job.

It is still possible that voters in one or more of the other signatory countries will vote the treaty down before Britain holds its referendum in 2006 (March has supposedly been pencilled in—ten weeks after the end of the British EU presidency). Were the cantankerous French to give it the thumbs down, it would be a death sentence for the treaty.

But Mr Blair would be the first to agree that he cannot simply wait and hope that sceptical voters elsewhere will get him off the hook. He has anyway convinced himself that it is in Britain's interests for the constitution to be ratified. And although he conceded demands for a referendum at the wobbliest moment of his post-Easter wobble, he claims to have no regrets at all. One of the sources of Mr Blair's resilience is that he rarely agonises over decisions once they have been taken. His justification for promising a referendum is as simple as it is compelling: without it, he might not have made it through the summer.

What is extraordinary, however, is that Mr Blair has no more idea today how he might win such a referendum than he did in April. What is even more extraordinary is that he doesn't even seem to be thinking about it much. A couple of weeks ago, a leading Labour pro-European went to see Mr Blair to discuss his strategy for the referendum and was dismayed to find that there wasn't one. The prime minister's advisers say that Europe is barely on his "radar screen".

Mr Blair's thoughts are dominated by the timetable for elections in Iraq, while his energies are devoted to his ever more hands-on approach to the minutiae of domestic policy. Any time left over is concentrated on the manifesto and planning the general election campaign. Europe can come later. Given that nearly everyone assumes that were he to lose the referendum it would finish him—the idea that he could carry on for the further three years he has committed himself to as if nothing had happened is absurd—Mr Blair's insouciance is shocking.

The prime minister seems to be banking on another thumping majority to revive his political potency and, subsequently, his ability to turn the referendum on the constitution into a vote on staying in the EU. Each of those assumptions is, to say the least, optimistic. Labour is almost certain to win the election, but its hopes of a three-figure majority depend on a continuation of Liberal Democrat supporters voting tactically against Conservatives in Labour/Tory marginals. Fading memories of the last Tory government and hostility to Mr Blair because of the war have eroded that informal alliance, although, until polling day, nobody knows by how much. In normal circumstances, a majority of over 70 would be considered good going for a third-term government. But a halving of Labour's majority, secured with not much more than a one-third share of the vote, will do little to rebuild Mr Blair's authority.

Without a dramatic restoration of his political prestige, Mr Blair's chances of turning round opinion on the constitution are slim. The most recent poll, carried out for the Vote No pressure group by ICM four weeks ago, demonstrates Mr Blair's plight. Respondents were asked to say which of two quite detailed and cleverly crafted statements they agreed with.

The first read: “Tony Blair says we must sign the EU constitution or leave the EU, which would be a disaster for Britain. The constitution is about making Europe work better and it does not significantly transfer more powers from Britain to the EU.” The second read: “Things should be left as they are. Britain should be in Europe, but the new EU constitution will give too much power to the EU over things like jobs, living standards, civil rights and asylum policy. Britain should say ‘yes' to Europe and ‘no' to the constitution.” Only 28% agreed with the first statement compared with 59% who agreed with the second. The poll also found that 45% think Mr Blair generally lies about Europe compared with 41% who think he generally tells the truth.

The Brown temptation

Mr Blair has always known that the newspapers which will be ranged against him outnumber pro-European papers by three to one in terms of circulation. But when, in the past, he has contemplated a referendum on the euro, he has counted on the combined weight of a united government, pro-European Tories and big business to win the day. But business has become less keen both on Europe and on him, while the erstwhile Tory big beasts, such as Ken Clarke, Michael Heseltine, Douglas Hurd and Chris Patten, have been strident critics of his Iraq policy.

Which leaves the enigma that is Gordon Brown. To say that Mr Blair needs the chancellor battling at his side is an understatement. However, Mr Brown is no great admirer of the constitution and thinks Mr Blair's handing of it has been feeble. These days, Mr Brown seems almost semi-detached from the government. He is not openly disloyal, but, as with the speech he made last weekend, he increasingly hints at how a Brown premiership might differ from a Blair one. As both men will be all too aware, that premiership might become reality much sooner were the referendum not to go Mr Blair's way.

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Make it simple

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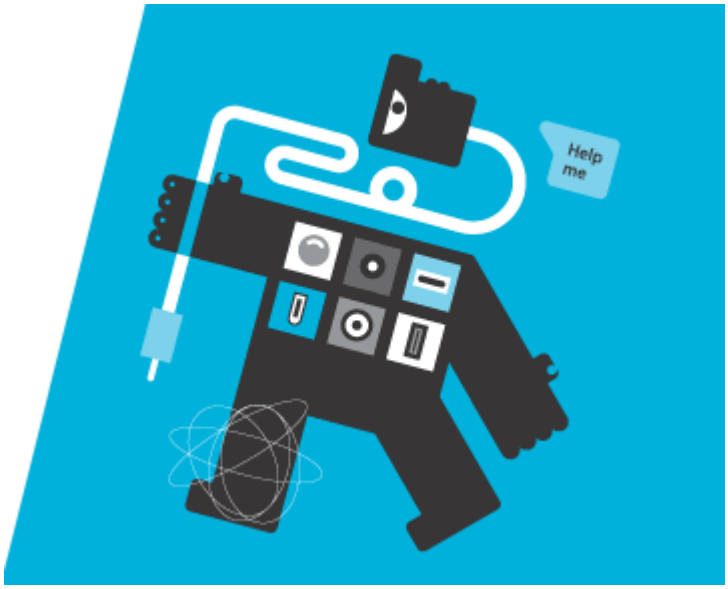


The next thing in technology, says Andreas Kluth, is not just big but truly huge: the conquest of complexity

“THE computer knows me as its enemy,” says John Maeda. “Everything I touch doesn't work.” Take those “plug-and-play” devices, such as printers and digital cameras, that any personal computer (PC) allegedly recognises automatically as soon as they are plugged into an orifice called a USB port at the back of the PC. Whenever Mr Maeda plugs something in, he says, his PC sends a long and incomprehensible error message from Windows, Microsoft's ubiquitous operating system. But he knows from bitter experience that the gist of it is no.

At first glance, Mr Maeda's troubles might not seem very noteworthy. Who has not watched Windows crash and reboot without provocation, downloaded endless anti-virus programs to reclaim a moribund hard disc, fiddled with cables and settings to hook up a printer, and sometimes simply given up? Yet Mr Maeda is not just any old technophobic user. He has a master's degree in computer science and a PhD in interface design, and is currently a professor in computer design at the Massachusetts Institute of Technology (MIT). He is, in short, one of the world's foremost computer geeks. Mr Maeda concluded that if he, of all people, cannot master the technology needed to use computers effectively, it is time to declare a crisis. So, earlier this year, he launched a new research initiative called “Simplicity” at the MIT Media Lab. Its mission is to look for ways out of today's mess.

Mr Maeda has plenty of sympathisers. “It is time for us to rise up with a profound demand,” declared the late Michael Dertouzos in his 2001 book, “The Unfinished Revolution”: “Make our computers simpler to use!” Donald Norman, a long-standing advocate of design simplicity, concurs. “Today's technology is intrusive and overbearing. It leaves us with no moments of silence, with less time to ourselves, with a sense of diminished control over our lives,” he writes in his book, “The Invisible Computer”. “People are analogue, not digital; biological, not mechanical. It is time for human-centred technology, a humane technology.”

The information-technology (IT) industry itself is long past denial. Greg Papadopoulos, chief technologist at Sun Microsystems, a maker of powerful corporate computers, says that IT today is “in a state that we should be ashamed of; it's embarrassing.” Ray Lane, a venture capitalist at Kleiner Perkins Caufield & Byers, one of the most prominent technology financiers in Silicon Valley, explains: “Complexity is holding our industry back right now. A lot of what is bought and paid for doesn't get implemented because of complexity. Maybe this is the industry's biggest challenge.” Even Microsoft, which people like Mr Lane

identify as a prime culprit, is apologetic. “So far, most people would say that technology has made life more complex,” concedes Chris Capossela, the boss of Microsoft's desktop applications.

The economic costs of IT complexity are hard to quantify but probably exorbitant. The Standish Group, a research outfit that tracks corporate IT purchases, has found that 66% of all IT projects either fail outright or take much longer to install than expected because of their complexity. Among very big IT projects—those costing over $10m apiece—98% fall short.

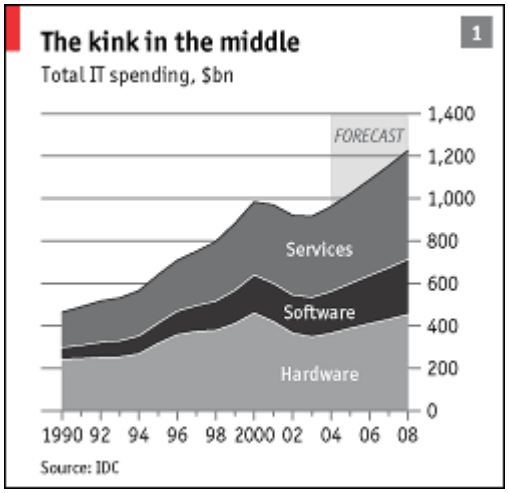
Gartner, another research firm, uses other proxies for complexity. An average firm's computer networks are down for an unplanned 175 hours a year, calculates Gartner, causing an average loss of over $7m. On top of that, employees waste an average of one week a year struggling with their recalcitrant PCs. And itinerant employees, such as salesmen, incur an extra $4,400 a year in IT costs, says the firm.

Tony Picardi, a boffin at IDC, yet another big research firm, comes up with perhaps the most frightening number. When he polled a sample of firms 15 years ago, they were spending 75% of their IT budget on new hardware and software and 25% on fixing the systems that they already had; now that ratio has been reversed—70-80% of IT spending goes on fixing things rather than buying new systems. According to Mr Picardi, this suggests that this year alone IT complexity will cost firms worldwide some $750 billion. Even this, however, does not account for the burden on consumers, whether measured in the cost of call-centres and help desks, in the amount of gadgets and features never used because they are so byzantine, or in sheer frustration.

Why now?

Complaints about complex technology are, of course, nothing new. Arguably, IT has become more complex in each of the 45 years since the integrated circuit made its debut. But a few things have happened in the past three years that now add a greater sense of urgency.

The most obvious change is the IT bust that followed the dotcom boom of the late 1990s. After a decade of strong growth, the IT industry suddenly started shrinking in 2001 (see chart 1). In early 2000 it accounted for 35% of America's S&P 500 index; today its share is down to about 15%. “For the past three years, the tech industry's old formula—build it and they come—has no longer worked,” says Pip Coburn, a technology analyst at UBS, an investment bank. For technology vendors, he thinks, this is the sort of trauma that precedes a paradigm shift. Customers no longer demand “hot” technologies, but instead want “cold” technologies, such as integration software, that help them stitch together and simplify the fancy systems they bought during the boom years.



Steven Milunovich, an analyst at Merrill Lynch, another bank, offers a further reason why simplicity is only now becoming a big issue. He argues that the IT industry progresses in 15-year waves. In the first wave, during the 1970s and early 1980s, companies installed big mainframe computers; in the second wave, they put in PCs that were hooked up to “server” computers in the basement; and in the third wave, which is breaking now, they are beginning to connect every gadget that employees might use, from hand-held computers to mobile phones, to the internet.

The mainframe era, says Mr Milunovich, was dominated by proprietary technology (above all, IBM's), used mostly to automate the back offices of companies, so the number of people actually working with it was small. In the PC era, de facto standards (ie, Microsoft's) ruled, and technology was used for word processors and spreadsheets to make companies' front offices more productive, so the number of people using technology multiplied tenfold. And in the internet era, Mr Milunovich says, de jure standards (those agreed on by industry consortia) are taking over, and every single employee will be expected to use technology, resulting in another tenfold increase in numbers.

Moreover, the boundaries between office, car and home will become increasingly blurred and will eventually disappear altogether. In rich countries, virtually the entire population will be expected to be permanently connected to the internet, both as employees and as consumers. This will at last make IT pervasive and ubiquitous, like electricity or telephones before it, so the emphasis will shift towards

making gadgets and networks simple to use.

UBS's Mr Coburn adds a demographic observation. Today, he says, some 70% of the world's population are “analogues”, who are “terrified by technology”, and for whom the pain of technology “is not just the time it takes to figure out new gadgets but the pain of feeling stupid at each moment along the way”. Another 15% are “digital immigrants”, typically thirty-somethings who adopted technology as young adults; and the other 15% are “digital natives”, teenagers and young adults who have never known and cannot imagine life without IM (instant messaging, in case you are an analogue). But a decade from now, Mr Coburn says, virtually the entire population will be digital natives or immigrants, as the ageing analogues convert to avoid social isolation. Once again, the needs of these converts point to a hugely increased demand for simplicity.

The question is whether this sort of technology can ever become simple, and if so, how. This survey will analyse the causes of technological complexity both for firms and for consumers, evaluate the main efforts toward simplification by IT and telecom vendors today, and consider what the growing demands for simplicity mean for these industries. A good place to start is in the past.

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Now you see it, now you don't

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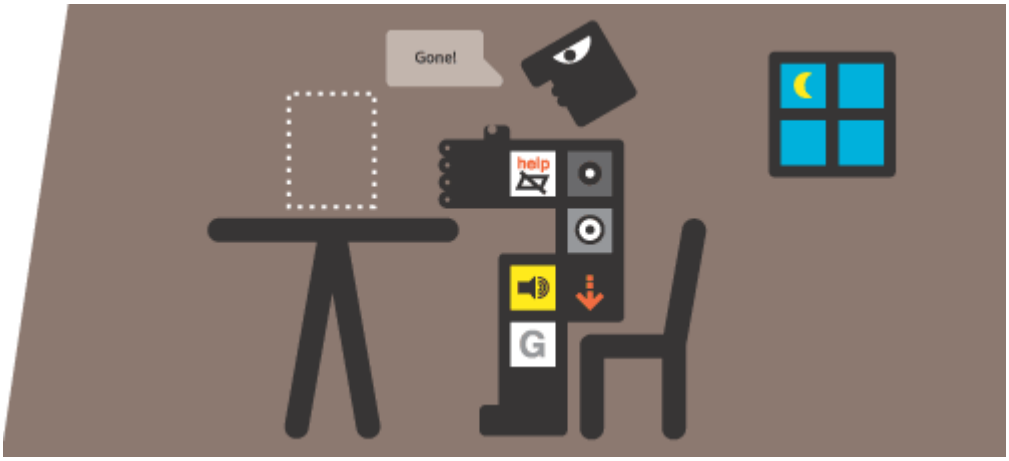

To be truly successful, a complex technology needs to “disappear”

THERE has never been anything quite like information technology before, but there have certainly been other complex technologies that needed simplifying. Joe Corn, a history professor at Stanford University, believes that the first example of a complex consumer technology was clocks, which arrived in the 1820s. Clocks were sold with user manuals, which featured entries such as “How to erect and regulate your device”. When sewing machines appeared in the 1840s, they came with 40-page manuals full of detailed instructions. Discouragingly, it took two generations until a trade publication was able to declare in the 1880s that “every woman now knows how to use one.”

At about the same time, the increase in technological complexity gathered pace. With electricity came new appliances, such as the phonograph, invented in 1877 by Thomas Alva Edison. According to Mr Norman, the computer-design guru, despite Mr Edison's genius for engineering he was a marketing moron, and his first phonograph was all but unusable (in fact, initially he had no particular uses in mind for it). For decades, Mr Edison fiddled with his technology, always going for the most impressive engineering solution. For instance, he chose cylinders over discs as the recording medium. It took a generation and the entry of a new rival, Emile Berliner, to prepare the phonograph for the mass market by making it easier to use (introducing discs instead of cylinders) and giving it a purpose (playing music). Mr Edison's companies foundered whereas Mr Berliner's thrived, and phonographs became ubiquitous, first as “gramophones” or “Victrolas”, the name of Mr Berliner's model, and ultimately as “record players”.

Another complex technology, with an even bigger impact, was the car. The first cars, in the early 1900s, were “mostly a burden and a challenge”, says Mr Corn. Driving one required skill in lubricating various moving parts, sending oil manually to the transmission, adjusting the spark plug, setting the choke, opening the throttle, wielding the crank and knowing what to do when the car broke down, which it invariably did. People at the time hired chauffeurs, says Mr Corn, mostly because they needed to have a mechanic at hand to fix the car, just as firms today need IT staff and households need teenagers to sort out their computers.

By the 1930s, however, the car had become more user-friendly and ready for the mass market. Two things in particular had made this possible. The first was the rise, spread and eventual ubiquity of a support infrastructure for cars. This included a network of decent roads and motorways, and of petrol stations and garages for repair. The second was the makers' increasing skill at hiding the technology from drivers. Ford proved particularly good at this. Ironically, it meant that cars got hugely more complex on the inside, because most of the tasks that had previously been carried out by drivers now had to be done automatically. This presented drivers with a radically simplified surface, or “interface” in today's jargon, so that all they had to do was turn the ignition key, put their foot on the accelerator,

brake, steer and change gear—and after 1940, when automatic transmissions were introduced, even gear-shifting became optional.

Another instructive technology is electricity. In its early days, those firms and households that could afford it had their own generators. Keeping these going soon became a full-time job. In the early 20th century, writes Nick Carr, the author of a book entitled “Does IT Matter?”, most companies had a senior management position called “vice-president of electricity”, a rough equivalent of today's “chief information officer” (CIO) and “chief technology officer” (CTO). Within a generation, however, the generators and vice-presidents disappeared as electricity became available through the grid, leaving users to deal only with the simplest of interfaces, the power socket.

Out with the nerds

The evolution of these technologies holds some lessons for the IT industry today. The first observation, according to Mr Norman, “is that in the early days of any technological revolution the engineers are in charge, and their customers are the early adopters. But the mass market is the late adopters. This is why Thomas Alva Edison, an engineering genius, failed miserably in business.” Similarly, in IT today, says Mr Papadopoulos of Sun Microsystems, “the biggest problem is that most of the people who create these artefacts are nerds. I want to see more artists create these things.”

The geekiness that predominates in the early stages of any new technology leads to a nasty affliction that Paul Saffo, a technology visionary at California's Institute for the Future, calls “featuritis”. For example, Microsoft in a recent survey found that most consumers use only 10% of the features on offer in Microsoft Word. In other words, some 90% of this software is clutter that obscures the few features people actually want. This violates a crucial principle of design. As Soetsu Yanagi wrote in “The Unknown Craftsman”, his classic 1972 book on folk art, “man is most free when his tools are proportionate to his needs.” The most immediate problem with IT today, as with other technologies at comparable stages, says Mr Saffo, is that “our gadgets are so disproportionate”.

A second lesson from history, however, is that a brute cull of features would be futile. As technologies, the sewing machine, the phonograph, the car and the electricity grid have only ever grown more complex over time. Today's cars, in fact, are mobile computers, containing dozens of microchips and sensors and other electronic sub-systems that Henry Ford would not recognise. Electricity grids today are as complex as they are invisible in everyday life. Consumers notice them only when things go wrong, as they did spectacularly during last year's power cuts in north-eastern America and Canada.

“You have to push all the complexity to the back end in order to make the front end very simple,” says Marc Benioff, the boss of Salesforce.com, a software firm that will be examined in a later article in this survey. This migration of complexity, says Mr Benioff, echoes the process of civilisation. Thus, every house initially has its own well and later its own generator. Civilisation turns houses into “nodes” on a public network that householders draw on. But the “interface”—the water tap, the toilet flush, the power switch—has to be “incredibly simple”. All the management of complexity now takes place within the network, so that consumers no longer even know when their electricity or water company upgrades its technology. Thus, from the user's point of view, says Mr Benioff, “technology goes through a gradual disappearance process.”

From the point of view of the vendors, the opposite is true. “Our experience is that for every mouse click we take out of the user experience, 20 things have to happen in our software behind the scenes,” says Brad Treat, the chief executive of SightSpeed, a company that wants to make video phone calls as easy for consumers as e-mailing. The same applies to corporate datacentres. “So don't expect some catharsis in eliminating layers of software,” says Mr Papadopoulos. “The way we get rid of complexity is by creating new layers of abstraction and sedimenting what is below.” This will take different forms for firms and for consumers. First, consider the firms.

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A byte's-eye view of complexity

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Companies' computer infrastructures contain a Pandora's boxful of trouble

ONE way to appreciate the chaotic complexity that rules in the computer vaults (“datacentres”) of firms is to imagine, with a bit of anthropomorphic licence, the journey of one lowly unit of digital information, or byte, as it wends its way on a routine mission through a maze of computers, routers, switches and wires.

At the outset, the byte is asleep on a specialised storage disc. This disc could be made by a firm such as EMC or Hitachi. Now an alarm bell rings and a message flashes that an employee of the company, sitting in an office somewhere half-way round the world, has clicked on some button in his PC's software. The byte wakes up and is ejected from its storage disc. Along with billions of other bytes from other storage discs, it is now herded through a tunnel called a storage switch. This switch is probably made by a company called Brocade or McData. It hurls the byte towards an “interface card”, which comes from yet another vendor, and the card directs the byte into one of the datacentre's many back-office computers, called “servers”.

This causes the byte some momentary confusion, because the datacentre has servers that were assembled by different makers, such as IBM, Hewlett-Packard, Sun Microsystems or Dell. It also has some mainframes that are left over from an earlier era. Some of the servers will contain a microprocessor made by Intel, whereas others run on chips from AMD or on Sun's Sparc chip, and the mainframes are using IBM chips. For their operating system, some of the servers use Windows, others Linux or Solaris or a more obscure kind of Unix software, and the mainframes run on their own, proprietary, system.

The byte is catapulted into this motley and, with luck, finds the appropriate server. As it arrives in that machine, the byte is spun around by a layer of “virtualisation” software, which might come from a company called Veritas. This program gives the byte a quick health-check to see whether a copy needs to be retrieved from a back-up tape on another network, probably a long way away, set up to guard against disasters such as earthquakes. That tape probably comes from StorageTek.

When this is done, the server shoots the byte to another computer and into a database program. This database probably comes from Oracle or IBM. The byte then ricochets into yet another server computer that runs a whole bag of programs called “middleware”, which might be written by BEA Systems or IBM or TIBCO. The middleware now hands the byte over to the application software of the employee who started this journey with his click. That application program could come from SAP, PeopleSoft, Oracle, Siebel or a number of other companies. Just as the byte arrives, dizzy and dazed, the employee clicks again, and another journey through the labyrinth begins.

Twisted tongues

But the poor byte not only has to navigate a labyrinth; it also has to cope with Babel. Every time it moves, it has to get past yet another sentry, called an interface, hired by whichever vendor was subcontracted to build that particular intersection. These sentries demand different passwords, called “protocols”, and speak different languages. The byte, in other words, has to travel with a suitcase of dictionaries. With luck, it can make some progress by speaking a lingua franca such as Java or .NET, and by brandishing widely used passwords that are the internet equivalent of its mother's maiden name.

Sooner or later, however, the byte encounters some truly anachronistic sentries, called “legacies”. According to estimates by *InfoWorld*, a trade publication, about half of all corporate data today still reside on mainframes, possibly bought decades ago. And many companies still use bespoke software that was written in the 1980s—before off-the-shelf, packaged software arrived—by the company's own IT staff, who left the company long ago and took their little secrets with them. The byte, in other words, also has to be fluent in Latin, Aramaic, Hittite and other extinct tongues to keep moving.

Along the way, moreover, it encounters open paranoia. Whenever it mingles with bytes that started their journey in the computers of another datacentre, it has to pass through checkpoints, called firewalls, that check its identification documents against a list of viruses and worms and other nasty bytes, roughly as the Israeli army might examine a Palestinian entering from the Gaza strip. In fact, the market leader for such firewalls is an Israeli firm called Check Point Software Technologies.

Occasionally, the byte will also get wrapped in several sealed layers of encryption and sent to its destination as a VPN, or “virtual private network”, only to have to be carefully unwrapped again at the other end. Throughout the journey, the byte will be shadowed by a digital Department of Homeland Security, called an “intrusion detection system” (IDS).

Over the years, every firm acquires an agglomeration of boxes and code as unique as a fingerprint. Then firms merge, and someone has to try to stitch several of these unique datacentres together. This is the sort of thing that Charles de Felipe did at J.P. Morgan, a huge global bank, where he was one of the chief technical people for 26 years until he quit in July. During his career there Mr de Felipe went through nine mergers, which amalgamated once-famous names such as Chemical, Horizon, Manufacturers Hanover, Chase, H&Q, Jardine Fleming, J.P. Morgan and, most recently, BankOne into a single bank. “Every four years or so the entire landscape changes,” says Mr de Felipe. “On day one you merge the books; on day two you do the regulatory paperwork, and on day three you start talking about the systems.” The first two, he says, are child's play compared with the third. In his last few years on the job, for instance, he was concentrating mostly on reducing the number of the bank's desktop applications, from a total of 415 to about 40.

All this opens a Pandora's box of problems. Something in the datacentre will go wrong almost all the time. When that happens, the users will scream for the IT staff, who will have to figure out where in this chain of almost infinite permutations the byte got stuck or lost. There is software that can run a few tests. All too often, however, it comes back with the dreaded NTF (“no trouble found”) message, says Kenny Gross, a researcher at Sun who came from the nuclear industry, “where meltdown is not a metaphor”. That means the IT staff are reduced to changing devices one by one to find the villain. This can take days, weeks or months.

Today's datacentres are a catastrophic mess, says Alfred Chuang, the boss of BEA Systems, a middleware company that he co-founded a decade ago (he is the A in BEA), with the explicit aim of simplifying datacentres. The struggle between complexity and simplicity, he reckons, “is binary: Either it will all blow up, or it will simplify.” For the moment, no one can tell. But remember that the last spirit left in Pandora's box, once all the evil ones had escaped, was Hope.

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If in doubt, farm it out

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From The Economist print edition

The ultimate solution to simplifying your datacentre is not to have one at all

EVERY self-respecting technology vendor these days not only vigorously deplores complexity but also claims to have a solution, and a suitably dramatic name for it to boot. Thus, Hewlett-Packard (HP) talks about its vision for the “adaptive enterprise”, helped by HP simplification software called OpenView. IBM trumpets the dawn of “on-demand”IT for companies through IBM's “autonomic computing” architecture. EDS, an IT consultancy, offers the “agile enterprise”. Hitachi has “harmonious computing”. Forrester, a research firm, suggests “organic IT”. Sun tempts with a shrewdly mysterious name, “N1”. Dell has “dynamic computing” and Microsoft flaunts the grand-sounding “dynamic systems initiative”.

All these marketing buzzwords imply a promise to hide the complexity of firms' datacentres in the same way that modern cars and planes hide their technological complexity from drivers and pilots. This is hard to argue with. At the same time, the grand titles raise expectations to an exalted level. Words such as “organic” and “autonomic” intentionally invite comparisons with biological systems whose complexity is hidden from the creatures living within them. The implication is that digital technology can achieve the same feat.

Take, for instance, IBM's autonomic-computing initiative, launched in 2002 by Alan Ganek, an IBM executive, and now the most ambitious proposal on offer. The label is currently attached to about 50 distinct IBM products with over 400 product features. In the longer term, however, IBM is hoping to bring computing to a level where it mimics the autonomic nervous system of the human body. This is what regulates breathing, digestion, blood-sugar levels, temperature, pancreatic function, immune responses to germs and so on, automatically and without the people concerned being conscious of these processes. It is, in a way, nature's gold standard of virtualisation software and complexity concealment, which is why IBM bagged the metaphor.

What IBM actually means by “autonomic” in a computing context, Mr Ganek explains, comes down to four technological goals. The first is to make computers and networks “self-configuring”. Whereas today IT staff walk around and manually perform tasks such as plugging CDs into computers or fiddling with command lines, IBM wants the hardware and software itself to figure out what settings are missing and to install them automatically.

The second step is to make the systems “self-healing”. Thus, the network should diagnose problems automatically—for example, by noticing a crashed computer and rebooting it. Whereas today IT staff can easily take several weeks to diagnose a problem by manually sorting through logs, autonomic computing can get it done without human intervention in about 40 minutes, says Mr Ganek.

The third goal, Mr Ganek continues, is to make systems “self-optimising”. This means that the network should know how to balance processing workloads among the various servers and storage computers so that none is idle or swamped. And the final step is to make the whole network “self-protecting”. The system, in other words, should be able to anticipate, hunt down and kill computer viruses and worms all by itself; to tell spam from legitimate e-mail; and to prevent “phishing” and other data theft.

A pinch of salt

The vision is shockingly ambitious. If it ever becomes reality, IBM (or HP, or whoever gets there first) will in essence have achieved what it has taken millions of years of natural evolution to do in the analogue, biological world. Not surprisingly, many experts are sceptical, pointing to the parallel with artificial intelligence (AI), which boffins confidently described as imminent in the 1950s but which remains elusive to this day. Mr Coburn at UBS says the talk of autonomic computing reminds him “of a high-school science fair”, and thinks it may be just another one of those things that IT vendors “throw on the wall to

see what sticks."

Buried deep underneath the guff, however, there is indeed a technology widely considered to have the potential for radical simplification. Like the wheel, the zip fastener and other breakthrough technologies, it looks deceptively basic at first sight. Even its name, "web services", is so vague that vendors find it hard to build any hype for a lay audience around it.

The best way to understand web services is to stop thinking of either "webs" or "services" and instead to picture Lego blocks. These little Danish plastic toy bricks come in different colours, shapes and sizes, but all Lego blocks have the same standardised studs and corresponding holes that allow them to be assembled, taken apart and reassembled in all sorts of creative ways. The magic of web services, in effect, is to turn almost any fiddly piece in any chaotic datacentre into a Lego block, so that it can snugly fit together with all the other fiddly bits. Thus, datacentres that consist of decades of legacy systems and lots of incompatible machines can now be snapped together and apart, Lego by Lego.

In place of studs and holes, web services use standardised software that wraps itself around existing computer systems. These wrappers do several things. First, they describe what the component inside is and what it does. Then they post this description to a directory that other computers can browse. This allows those other computers—which can belong either to the same company or to independent suppliers and customers—to find and use the software inside the wrapper.

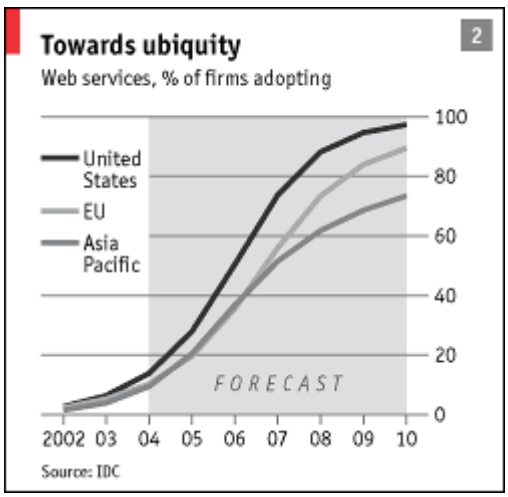
This removes the main bottleneck that scuppered business-to-business computing during the dotcom bubble. "The whole B2B boom died for one simple reason: nobody could get their damn systems to talk together," says Halsey Minor, the founder of Grand Central Communications, a start-up that uses web services to stitch datacentres together. Now, he says, they do talk together.

Imagine, for example, that a company receives an electronic order. The software application that takes these orders must first ensure that the customer has an adequate credit history. It therefore consults a directory of web services, finds an application from an independent firm that checks credit ratings, contacts this application and finds out that the customer is a reliable debtor. Next, the software consults the directory again, this time to find an internal application that keeps track of inventory in the warehouse, and finds that the product is in store. Now it goes back to the directory and looks for an external billing service, and so forth until the entire transaction is closed.

Making a splat

As a way of simplifying computing, web services have been talked about for some time. Only in the past couple of years, however, has there been real progress in agreeing on the most vital aspect, the standards that will make every system look familiar to everybody else. A major breakthrough came in October 2003, when the industry's two superpowers, Microsoft and IBM, got up on a stage together and stated what protocols they intend to use. Collectively dubbed "WS splat" in geeky circles, these are now being adopted by the rest of the industry.

This has raised hopes for a huge increase in their use in the next few years (see chart 2). Ronald Schmelzer and Jason Bloomberg at ZapThink, a consultancy, think that web services are "nearing their tipping point", because they benefit from "the network effect: the adoption rate of the network increases in proportion to its utility." In other words, as with telephones or e-mail, a network with only a few people on it is not very useful; but as more people join it, it becomes exponentially more useful and thereby attracts even more members, and so on.



Taking the idea of web services to its logical extreme, it is reasonable to ask why firms should continue to amass their own piles of Lego blocks, most of which will only duplicate the Lego blocks of business partners. Put differently, why have a datacentre if all you want is the data? This is a fairly new idea in the IT industry, although in many established industries it has been around for a long time. People do not put safes into their basements but open bank accounts. Similarly, "most people shouldn't build their own aeroplanes," says Sun's Mr Papadopoulos. "They shouldn't even own them; in fact, they shouldn't even rent them; what

they should do is rent a seat on one.”

In IT, the equivalent of renting a seat on an aircraft is to rent software as a service from specialised firms called “application service providers”, or ASPs. These companies build huge datacentres so that other companies do not have to. The best-known ASP today is Salesforce.com, a San Francisco firm that made its debut on the stockmarket in June. As the name suggests, Salesforce.com specialises in software that salespeople use to keep track of their marketing leads and client information. Traditionally, firms buy this kind of software from vendors such as Siebel Systems, then try to integrate it into their own datacentres. With Salesforce.com, however, firms simply pay a monthly fee, from $65 per user, and go to Salesforce.com's website, just as they go to Amazon's when they want to shop for books, or eBay's to buy secondhand goods.

This arrangement makes a lot of things simpler. Users need to spend less time on training courses, because the interface—in essence, the web browser—is already familiar to them. “I can train the average customer in under 45 minutes on the phone,” claims Marc Benioff, Salesforce.com's boss, adding that traditional software packages often take weeks to learn.

The IT staff of the firm using Salesforce.com also have less work to do. They do not have to install any new software on the firm's own computers, and can leave Salesforce.com to worry about integrating its software with the client's other systems. Even upgrading the software becomes much easier. Instead of shipping boxes of CDs to its customers, Salesforce.com simply shuts down its system for a few hours on a weekend night, and when clients log on again on Monday morning they see the new version in their browsers.

As an industry, ASPs got off to a bad start. The first generation, which sprang up during the dotcom boom, had trouble integrating their applications with their clients' legacy systems, and ended up re-creating the complexity of their clients' datacentres in their own basements. When the dotcom bubble burst, says Mr Lane at Kleiner Perkins Caufield & Byers in Silicon Valley, those early ASPs collapsed “because we VCs wouldn't invest in them any more”.

The second generation, however, seems to have cracked the problem of integration, thanks to web services, and is now picking off segments of the software market one by one. IDC estimates that ASPs' overall revenues will grow from $3 billion last year to $9 billion by 2008. As Grand Central's Mr Minor sees it, that puts IT today on the same path as other technologies in history, as “complexity gets concentrated in the middle of the network, while the edge gets simple.”

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Spare me the details

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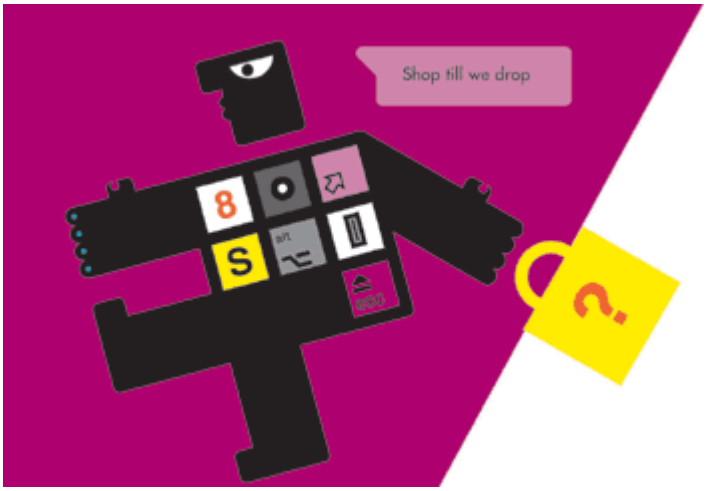


There is a huge gap between what consumers want and what vendors would like to sell them

LISA HOOK, an executive at AOL, one of the biggest providers of traditional (“dial-up”) internet access, has learned amazing things by listening in on the calls to AOL's help desk. Usually, the problem is that users cannot get online. The help desk's first question is: “Do you have a computer?” Surprisingly often the answer is no, and the customer was trying to shove the installation CD into the stereo or TV set. The help desk's next question is: “Do you have a second telephone line?” Again, surprisingly often the answer is no, which means that the customer cannot get on to the internet because he is on the line to the help desk. And so it goes on.

Admittedly, in America, where about half of all internet households now have high-speed (“broadband”) connections, these AOL customers are so-called “late adopters”, or “analogues”. But even younger, savvier “digital natives” or “digital immigrants” can provide surprising insights for those who care to listen.

Genevieve Bell, an anthropologist who works for Intel, the world's biggest semiconductor-maker, has been travelling around Asia for three years to observe how Asians use, or choose not to use, technology. She was especially struck by the differences in how westerners and Asians view their homes. Americans tended to say things like “my home is my castle” and furnish it as a self-contained playground, says Ms Bell. Asians were more likely to tell her that “my home is a place of harmony”, “grace”, “simplicity” or “humility”. These Asians recoiled from gadgets that made noises or looked showy or intrusive.

Even within western cultures, Ms Bell, who is Australian, has found startling differences in the way people view technology. When she recently opened her laptop in a café in Sydney to check her e-mail on the local wireless network, using a fast-spreading technology called Wi-Fi, she immediately got a mocking “Oi, what do you think you are, famous?” from the next table. “For Americans, adopting technology is an expression of American-ness, part of the story of modernity and progress,” says Ms Bell. For many other people, it may be just a hassle, or downright pretentious.

And even Americans, perhaps more prone than others to workaholism, can get frustrated by technology. Chris Capossela, boss of productivity software at Microsoft, commissioned a study where office workers were shadowed (with their consent) after they left the office. It showed that people feel pressure even in their cars and homes to keep up with “the expectation that one is always available,” says Mr Capossela. Thanks to technology (laptops, BlackBerries, smart phones and so on), he says, “the boundaries of nine-to-five no longer exist.” This creates a new demographic category, “the enterprise consumer”, for whom not only technology but all of life has grown more complex.

Hark, the vendors

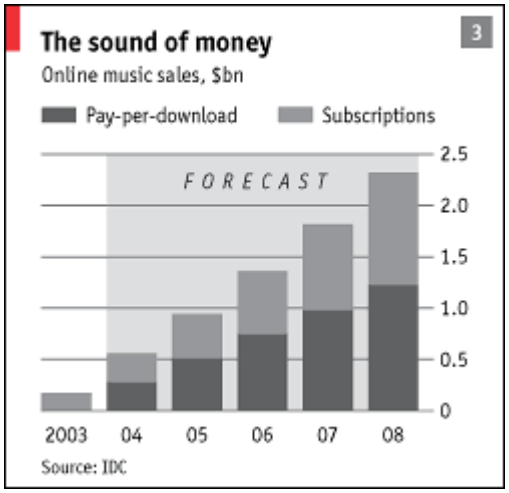
Contrast these insights with the technological visions that the industry is currently peddling. The best place to see them is the Consumer Electronics Show (CES), held every January in Las Vegas. For the better part of a week, some 133,000 visitors roam a space the size of several football fields and duck in and out of 2,500 exhibitors' booths. Almost all the visitors are male, and the toilets are blanketed with call girls' business cards. Everything else is a flashing warren of flat-panel screens, robots that serve drinks and countless other outlandish gadgets. The CES is where everybody who is anybody in consumer electronics, computing and telecoms comes to announce their new products.

A small portion of these wares eventually do end up being used by ordinary humans. Currently, the CES technophiles are excited about two trends in particular. The first is that every single electronic device will soon be connected to the internet. This includes the obvious, such as mobile phones and TV sets, and the less obvious, such as shirts and nappies that carry tiny radio-frequency identification (RFID) tags. Microsoft talks about its “connected-car” project, which conjures up images of drivers rebooting on the motorway. But the direction is clear. In future, most people in rich countries will be “always on”, and will connect to the internet through something other than a PC.

The other, and related, big idea concerns what some vendors call “the digital home” and others the “e-home”. This year's CES was full of mock homes in which the toaster, the refrigerator and the oven talk wirelessly to the computer, where toilet seats warm up at appropriate times and the front door can be unlocked remotely through the internet by the owner on his business trip abroad.

More than anything, however, the e-home is about digital entertainment, based on the premise that all media are currently migrating from analogue to digital form. This is happening fastest in photography. In America, digital cameras are already outselling film-based ones, and in the rest of the world the crossover will happen next year, according to IDC. Already lots of digital pictures are being created that need to be stored and shared.

Another promising medium is music, which is already digital (on CDs), but which is also increasingly being sold online, either through downloads of songs or subscriptions to online libraries (see chart 3). This has already led to the revival of consumer brands such as Apple, with its hugely successful iTunes music store, and has recently attracted competition from Sony, Wal-Mart and Virgin as well as from Apple's old nemesis, Microsoft. Films and television are also moving online, albeit more slowly.



These trends raise new complexity issues. The first is the challenge of connecting all the devices in the home—the PC, the camera, the game consoles, the stereo speakers, the TV sets and even the electronic picture frames—through a wireless network, so that they can share all these digital media without too much hassle. This is crucial because, according to Ted Schadler at Forrester Research, consumers are demanding “experience liberation”. In other words, they will not buy music or other media if they fear that they can only “experience” these things while sitting in front of their computer screen.

Paul Otellini, the second-in-command at Intel, expressed the challenge more poetically when he spoke at the CES. Intel and its partners, he promised, will not only Wi-Fi the home (because otherwise the tangle of cables would be offputting); they will also Veri-Fi (because everything must be totally secure), Hi-Fi (because the quality of sound and video must be good), Ampli-Fi (because the experience should reach into the garden, the garage and the basement), and of course Simpli-Fi. Mr Otellini emphasised this last point: “We need to make this dirt-simple, at ten feet, not at two feet.” That is because people will no longer be sitting two feet away from a computer screen with a keyboard, but ten feet away from something or other with a remote control.

The seams are still showing

But simply making the home a perfect communications hub is not enough. According to John O'Rourke, Microsoft's director of consumer strategy, people want access to their media at all times, including when

they are travelling. Gadgets must therefore know how to forward a phone call, a song or “Finding Nemo” automatically from the living room to the car. Microsoft calls this “seamless” computing; other vendors call it “pervasive” or “ubiquitous”. When Mr O'Rourke recently demonstrated some of Microsoft's efforts in seamlessness at an event in Silicon Valley, at one point the Windows system that was projected on to the big screen displayed a message that it had malfunctioned and was shutting down. That seemed to ring a bell with the audience.

All this will make technology even more complex, because broadband needs to work reliably both at great distances (to connect to the internet and when roaming) and at short distances (to connect gadgets within the home). In respect of the first, for the moment the best efforts of gadget vendors such as HP and Motorola allow Wi-Fi networks within the home or office to link up with mobile-phone networks on the road. Hopes are also high for a new wireless technology called WiMax, expected in the market by 2005, that has a range of 31 miles, or 50km (compared with Wi-Fi's 100 yards, or 90 metres) and could therefore blanket entire cities with connectivity.

Ironically, connecting gadgets at short range in a user-friendly way could prove trickier. Even today, home networking with cables and PCs and printers is not for the faint-hearted or the over-25s. “Most consumers don't have true networks at home; they're only divvying up their internet access,” says Kurt Scherf at Parks Associates, a consumer-technology consultancy. As soon as the network becomes wireless and the “nodes” include DVD players, TV and audio sets, the task becomes daunting. When Walter Mossberg, a reviewer of consumer gadgets, recently tried to connect his PC to his stereo through a fancy wireless device called Roku SoundBridge, the thing asked him whether his password was in ASCII or in Hex. Mr Mossberg, stuck for an answer, abandoned the experiment.

Help may be on the way in the form of “ultrawideband”, another promising wireless technology that will connect devices over short distances at blazing speeds. However, even once ultrawideband becomes available, over the next year or so, a lot else needs to happen before setting up an e-home becomes simple. The computing, networking and consumer-electronics industries have to agree on standards and communication protocols and on compatible copyright software. The challenge is compounded by consumers' buying habits. At present, most vendors are hawking a “highly architected, my-boxes-only strategy,” says Forrester's Mr Schadler, but “nobody buys technology this way, all at once, with benefits delivered in some distant future.” Instead, he says, consumers have budgets and “add home network functions one cheap device at a time.” Only Apple, with gadgets such as its $129 AirPort Express, a cute little thing that plugs unobtrusively into a power socket and delivers iTunes from a PC to the stereo, gets that point, says Mr Schadler.

For other vendors, this could prove deadly. If they hawk complex products to consumers, the expenses of maintaining their own support hotlines (one customer call costs them about $30) will eat into their profits, and customers may end up angry at the brand anyway. Instead, as with every other consumer technology in history, says Parks's Mr Scherf, the digital home “must become invisible to the consumer” in order to succeed. So what should the consumer see?

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The mom test

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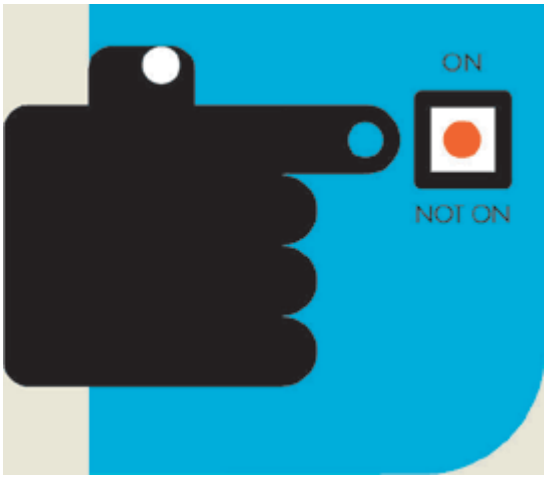

A geek's benchmark fortrue simplicity

“WITH e-mail, it wasn't till my mom could use it that it became ubiquitous. The real test is always the mom test,” says Brad Treat, the boss of SightSpeed, an internet video company. “If my mother flips over to some Skype thing...,” begins Michael Powell, America's media and telecoms regulator, answering a question about internet telephony. “If my mother is going to use it...,” starts Ray Lane, a venture capitalist, asked whether this or that technology has a future.

Mothers come up surprisingly often in Silicon Valley conversations. Whether that is because of their unequalled wisdom, because the IT industry is full of males who are too caught up with technology to have met many women other than their mothers, or because of a misogynist streak that suspects women of a certain age to be diehard analogues is a moot point.

Grandmothers, sisters, teenage daughters and other female kin also have their place. Mr Lane, for instance, not only believes in the mom test but also has a “sister theory” to explain market inertia. This is mainly because he has a sister who spent a long career as an executive with an American airline, where she “fought every technological change over 30 years, even though she couldn't say why”.

Mom, however, is invoked most—if not necessarily heeded. According to an industry legend, Steve Ballmer, now the boss of Microsoft, conducted a mom test before the launch of Windows 95, using his own mother as the guinea pig. When she had finished trying it out, Ms Ballmer asked, “How do I turn it off?” Her son, somewhat irked, pointed to the start button. “You go to the start button to stop?” asked his mother, quite perplexed. But today, several versions of Windows later, that is still how it is done.

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Metaphorically speaking

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What's the use of all that electronic information if you can't get at it?

THE two biggest consumer-technology successes of recent times are a white page and a wheel. The white page belongs to Google, the world's most popular search engine; the wheel to Apple's iPod, the world's most popular portable music player with a hard disk. Both form part of so-called “interfaces”—metaphorical gateways through which humans enter and navigate around a technology. Both are also picture-book examples of simplicity concealing complexity underneath.

The white page is said to have come about as follows. In its early days, Google kept receiving strange anonymous e-mails containing only the number 53. Sometimes they stopped coming, then they started again. Eventually, one of Google's geniuses figured out that the e-mails arrived whenever Google had made changes to its web home page that expanded its word count beyond 53. The anonymous adviser was telling Google to keep down the clutter (although why he picked 53 as the cut-off point remains a mystery). In August this year, Google made the biggest stockmarket debut of any technology firm in history. The current word count on google.com is 27.

As for the iPod, “It is successful because it's simple,” says Paul Mercer, the brainfather of its interface and the founder of Iventor, a technology-design firm. “It does few things, but some subtle things, and it is fluid.” The simplicity comes from the wheel itself; the subtlety comes from features such as the acceleration built into the wheel, so that it seems to sense whether the user wants to scroll through songs slowly or fast. The genius lies in what is absent—there is no “fast-scroll” button. Instead, says Mr Mercer, the “technology materialises only when needed”, and thus “seems to intuit” the user's intention.

Google and the iPod are successful because each rescues consumers from a particular black hole of complexity. Google does it by putting a white page on top of the googol (the number 1, followed by 100 zeros) of potential web pages. The iPod does it by letting music lovers, in effect, carry all of their CDs with them in their pocket. Both solutions require an enormous technological apparatus behind the scenes. Google is said to operate some 100,000 servers. And Apple had to configure the iPod so that it automatically and fluently talks to iTunes, the music application that runs on users' PCs. Transferring songs from the PC to the iPod now requires nothing more than plugging in a single cable. (Both companies, incidentally, are notoriously secretive and refused to be interviewed for this survey.)

More flops than hits

Perhaps the most startling thing about Google and the iPod, however, is the fact that they stand out so much. There are very few other recent examples of interfaces that have opened up entirely new avenues for technology to change human behaviour. Yet breakthroughs on this scale are needed if technology vendors are to see their visions come true. Those visions, remember, assume that people will increasingly connect to the internet through devices other than the PC. These gadgets will either have smaller screens, as with iPods, mobile phones or watches, or larger and more remote ones, as with TV sets or even, perish the thought, car windscreens.

Small screens require simplicity for two reasons, says Mr Mercer. One is the “lack of real estate”, ie, very

restricted space, meaning that not much fits on to the screen at one time. The other is that the method of input is different, because there is either only a tiny keyboard or none at all. Mary Czerwinski, a cognitive psychologist at Microsoft who calls herself the “visualisation and interaction boss”, has also found big gender differences. For whatever reason, women struggle with small screens, whereas men do almost as well on them as on PC monitors.

Large screens, for their part, require simplicity because they tend to be further away than a PC monitor and operated by a remote control, or because of the context in which they might be used. “Simplicity is a must-have when you're driving,” says Jack Breese, Microsoft's research director.

Even for the traditional PC, however, a new interface is needed. The present “metaphor”, in designer-speak, of a desktop surface was Apple's key commercial breakthrough that launched the PC era in 1984. This broad metaphor also lent itself to sub-metaphors, including object-icons such as a rubbish bin (also the work of Mr Mercer when he worked at Apple in the 1980s), folders and files. Microsoft eventually copied these metaphors and brought them to the mass market, thus helping to make millions of computer users more productive.

But now that the internet era, in which everything is connected, is taking over from the PC era, in which computers were mostly isolated, these old metaphors are becoming increasingly redundant. PCs are turning into crowded repositories of family photographs, songs and e-mails alongside word documents and spreadsheets, and point to locations on their own hard disks as well as to computers far away. This is too much to keep track of on one desktop. “Making everything visible is great when you have only 20 things,” writes Mr Norman in “The Invisible Computer”. “When you have 20,000, it only adds to the confusion. Show everything at once, and the result is chaos. Don't show everything, and stuff gets lost.”

The desktop metaphor is collapsing under the weight of data overload, says Tim Brown, the boss of IDEO, a design firm in Silicon Valley. “Browsing in the old sense of the word becomes pointless,” he says, and “filtering becomes crucial.” This applies both to items that are stored on the user's PC and to those on the internet because, in an always-on world, the distinction becomes irrelevant.

Hence the excitement about Google. Its algorithms have so far been directed only at websites, but it plans to deploy its search technology to help people find their own documents as well. Google is currently soft-launching Gmail, a free e-mail service that offers one gigabyte of free storage. This could be a first step towards letting customers store all their data on Google's servers, where they will be easily searchable, instead of on their own PCs. In a parallel move, earlier this month Google offered free software that searches the local hard disks of PC users and displays the results much like those of a web search.

Naturally, this has struck fear into Microsoft, whose Windows system runs 94% of the world's PCs and which sees itself as the ruler of the desktop. Yet Microsoft understands the threat that data overload poses to Windows' current metaphors. Bill Gates, Microsoft's chairman and software boss, regards this interface crisis as one of the biggest challenges for his firm, alongside the security holes in Windows and, perhaps, the threat from Linux, an open-source operating system.

His plan was therefore to introduce new metaphors in the next version of Windows, code-named Longhorn. Instead of files and folders, it would use fancy new search algorithms to guide users through their PC. This technology, called WinFS (which stands either for “file system” or “future storage”), was to turn Longhorn into relational databases so that users would no longer need to remember where they put things, because the interface would automatically retrieve data for them as needed. Alas, in August Microsoft announced that Longhorn would be delayed until 2006 and that its gem, WinFS, had been dropped from it altogether. Gleefully, rivals now refer to Longhorn as either Longwait or Shorthorn.

Honey, we need to talk

Even the mockingbirds, however, cannot agree on what metaphor should replace the desktop. One favourite seems to be some kind of “personal assistant”. But that may be promising too much, because what makes real-life assistants helpful is that they are able to make sense of their bosses' inchoate ramblings. In computing, says Microsoft's Mr Breese, “the holy grail of simplicity is I-just-wanna-talk-to-my-computer”, so that the computer can “anticipate my needs”. The technical term for this is speech recognition. “Speech makes the screen deeper,” says X.D. Huang, Microsoft's expert on the subject. “Instead of a limited drop-down menu, thousands of functions can be brought to the foreground.”

The only problem is that the idea is almost certainly unworkable. People confuse speech recognition with language understanding, argues Mr Norman. But to achieve language understanding, you first have to crack the problem of artificial intelligence (AI), which has eluded scientists for half a century. In fact, the challenge goes beyond AI, according to Mr Norman, and to the heart of semantics. Just think how difficult it would be to teach somebody to tie a shoelace or to fold an origami object by using words alone, without a diagram or a demonstration. “What we imagine systems of speech-understanding to be is really mind-reading,” says Mr Norman. “And not just mind-reading of thoughts, but of perfect thoughts, of solutions to problems that don't yet exist.” The idea that speech recognition is the key to simplicity, Mr Norman says, is therefore “just plain silly”.

He concludes that the only way to achieve simplicity is to have gadgets that explicitly and proudly do less (he calls these “information appliances”). Arguably, the iPod proves him right. Its success so far stems from its relative modesty of ambition: it plays songs but does little else. In the same vein, other vendors, such as Sun Microsystems, have for years been promoting radically stripped-down devices called “network computers” or “thin clients” that do nothing but access the internet, where the real action is. Such talk horrifies firms such as Microsoft, whose financial fortunes rely on clients getting thicker so that they can sell software upgrades. But in the end the minimalists may be proved right.

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Hearing voices

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From The Economist print edition

Plain old telephone systems are becoming redundant

SARA BAUMHOLTZ lives in Hawaii and wants to stay in close touch with her young granddaughter in Pennsylvania. So Ms Baumholtz, by inclination an “analogue”, became a “digital immigrant”. With the help of software from SightSpeed, a Californian firm that is at last making video-calling foolproof for ordinary humans, Ms Baumholtz now talks to, and makes faces at, the distant toddler through her PC monitor and webcam. And, because she is not using a telephone line and her broadband internet access is always on, she no longer bothers to “hang up”, staying connected to Pennsylvania throughout the day. That got her thinking. “I wouldn't be surprised if I got rid of the phone,” she says.

Ms Baumholtz represents the leading edge of a trend with implications that are as far-reaching as they are often underestimated. Telephony, as a stand-alone technology and as an industry, will gradually disappear. “In ten years the whole notion of a phone call or a number may be dead,” says Paul Saffo at Silicon Valley's Institute for the Future. “Instant messaging (IM), audio IM, video IM—what is a call? You will click on an icon and talk, just as when you see somebody in the hallway.” Or just as Ms Baumholtz does already.

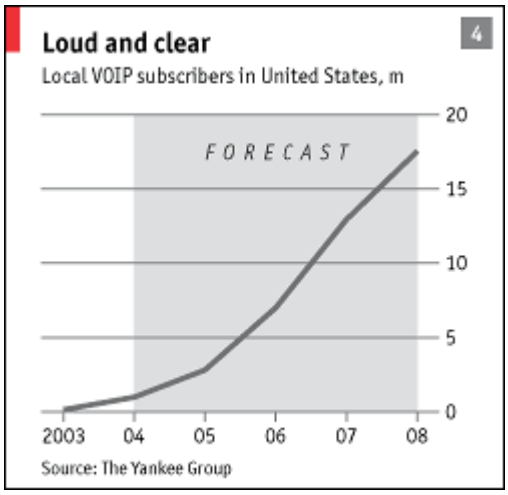
Today, most people make phone calls on the “plain old telephone system” (POTS), where operators open a dedicated circuit between the callers, which can be next door or in different countries. This network consists of a set of pipes that is separate from the internet. However, voice conversations can also be sent over the internet, in the same way that e-mails travel. The caller's voice is broken into packets of digital information that are routed separately to their destination and reassembled at the other end.

In pure form, such conversations are called internet telephony. This might involve a video call between two SightSpeed customers, or a voice call between two computers that use software from Skype, a fast-growing European firm. This pure form is still rare, however, because most people still use traditional phones, which requires people calling from a PC or an internet phone to “bridge” over to the phone network. The umbrella term that includes such hybrid calls is “voice-over-internet protocol”, or VoIP. This isa service offered by companies such as Vonage, a high-profile start-up in New Jersey. It allows customers to plug their old phones into an adapter that routes the call through the internet and crosses back, if necessary, to the phone network at the other end.

In the past, VoIP has not had a great reputation among consumers—if, indeed, they had heard of it at all. Today's fixed-line telephones are relatively simple devices, and mobile-phone handsets compensate for their added complexity with the convenience of mobility, so there appears to be no acute need to change the status quo. Internet telephony, by contrast, still conjures up images of geeks fiddling with their computer settings to talk to other geeks. And even if the new generation of VoIP providers, such as Vonage, really are simplifying things, they nonetheless appear at first glance to be mere substitutes for

the incumbent telecoms utilities. Currently, their big selling point is not simplification but lower cost, because VoIP is much cheaper than conventional telephones, and pure internet telephony is free. That is enough reason for some consumers to make the switch (see chart 4).

Companies are drawn to VoIP by its lower costs in the first place, but they also quickly discover its simplifying magic. This starts behind the scenes. Today, companies need to maintain four separate communications infrastructures. One is the data network; another is a “private branch exchange” (PBX) for external phone calls; a third is an “automatic call distributor” (ACD) to route calls internally; and the fourth is a voicemail system. By switching to VoIP, companies can ditch everything but their data network, which makes maintenance dramatically simpler for the IT staff. For instance, employees can “log on” to their phone from any cubicle or desk, whereas with POTS any office move causes expense and disruption. According to the Meta Group, a consultancy, 63% of North American companies (including giants such as Boeing and Ford) have already switched to internet telephony, either entirely or in part.



It does not take long for employees of companies with VoIP to cotton on to its many other conveniences. Today's generation of VoIP uses a technology called “session initiation protocol” (SIP), which integrates voice with other software programs, such as e-mail, instant messaging, and calendar and collaboration applications. Qualitatively, in other words, VoIP has less in common with telephones than with, say, Microsoft Outlook or Hotmail. This makes a busy executive's life simpler in several ways.

All-in-one

In a POTS world, employees can easily spend hours a week checking separate voicemail systems in the office, at home and on their mobile phones; they also need to look out for faxes and keep an eye on their pager. To make a call, they typically go to their contacts software and then manually key a number into their phone, perhaps looking up a country code first. “Phone tag”, the game played by people trying, and failing, to get hold of each other on the phone, causes frustration every day. Setting up a conference call still gets the better of many cubicle workers. Calling while travelling is messy if it involves fixed-line phones and expensive (as well as spotty) with a mobile phone.

In a VoIP world, by contrast, there is one universal in-box for voicemails, e-mails and all other messages, which can be checked from any internet browser. Users can save their voicemails, reply to them with text, video or voice, and attach spreadsheets and presentations to their voice if appropriate. Numbers are no longer necessary, because SIP is happy with names. Initiating a call, whether to one person or many, requires only a single click on a name or an icon. Phone tag has become a thing of the past. Travelling too has ceased to be a problem: the user simply “logs on” to his phone wherever he has an internet connection.

Because that connection nowadays tends to be always on, moreover, people start changing their behaviour. Users stay permanently online with the people in their contacts application (as Ms Baumholtz does with her granddaughter), practising what Rich Tehrani, a VoIP expert, calls “ambient telephony”. They will not be talking the whole time, says Mr Tehrani, but fluidly “escalating” and “de-escalating” between different levels of interaction. A conversation between several colleagues might start with a few instant text messages, then escalate to a voice or a video call, then slumber for a few hours with icons sitting at the bottom of the screen, then start again, and so on. It is rather like sharing an office or a kitchen.

Crucially, SIP also allows for social and business etiquette through a feature called “presence”. For instance, a caller browsing through his contacts software may see some names (or photographs) in red, which tells him that they are busy, so he will not call them but might leave a voice or text message instead. Other contacts, such as family members, may be shown in yellow—ie, busy but available for emergencies. Others might be green, indicating that according to their calendar software they are all in the same conference call. By clicking, the caller can automatically join that conversation. Thus, says Tim Brown, the boss of IDEO, a big technology-design firm, VoIP can “make technology polite”—less intrusive, more humane and thus easier to live with.

Within the next decade, says Donald Proctor, the VoIP boss at Cisco, the world's largest maker of networking gear, VoIP could reach a tipping point, as millions of cubicle warriors, by then persuaded by the convenience of VoIP, decide to bring the simplicity of “converged” communications into their homes and disconnect their POTS utility. An obvious time for such a step might be when people move house and get fed up with spending an hour listening to their utility's muzak just to disconnect and re-connect a physical phone line.

VoIP, in other words, is today roughly where e-mail was a decade ago. Some people were predicting that e-mail would lead to world democracy, if not nirvana, whereas analogue sceptics insisted that it was just a paper-saving alternative to office memos. Then people started bringing their e-mail habits home from the office. Since then, e-mail has become radically simpler, unbound from geography and ubiquitous. It has made communicating with far-flung friends free and easy (although, arguably, it now has to defend that convenience against spam). And as it got simpler, it simplified its users' lives.

VoIP has the same potential. It may not be for everyone yet, but over the next decade, as the fiddliness of connecting to the internet—whether through the air, the power socket, the old phone jack, the cable-TV dongle, or by satellite—is resolved, that connection will increasingly be the only link needed. Communicating, by voice or any other means, will be free. Will it be simpler? Ask Ms Baumholtz.

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The blood of incumbents

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Stand by for a spot of creative destruction

ON THE record, any top executive in the IT, consumer-electronics and telecoms industries today will profess that his firm is leading the way towards simplicity. But are those claims justified? In theory, says Ray Lane, a venture capitalist, the company best placed to deliver simplicity should be Microsoft. It controls virtually all of the world's PCs and laptop computers (albeit smaller shares of mobile phones, hand-held and server computers), so if its software became simpler, everything else would too. The bitter irony, says Mr Lane, is that Microsoft is one of the least likely companies to make breakthroughs in simplification. “It cannot cannibalise itself,” says Mr Lane. “It faces the dilemma.”

The dilemma? These days, whenever anybody in the IT industry mentions that word, it is instantly understood to refer to “The Innovator's Dilemma”, a book by Clayton Christensen, a professor at Harvard Business School, who has since followed it up with a sequel, “The Innovator's Solution”. In a nutshell, the dilemma is this: firms that succeed in one generation of innovation almost inevitably become hamstrung by their own success and thus doomed to lose out in the next wave of innovation. Just as they “disrupted” the previous era's leaders, they are in turn disrupted by the pioneers of the next era.

To explain how this happens, Mr Christensen distinguishes between two basic types of innovation. The first is “sustaining” innovation. This is the sort that incumbent firms are engaged in to sell ever better, and ever more profitable, products to their most attractive and demanding customers. An example might be Microsoft adding more features to Word, Excel and PowerPoint. If challenged by upstarts, incumbents almost always prevail. At some point, however, the technology goes into “overshoot”, where users no longer have an appetite for additional bells and whistles, and sustaining innovation leads to numbing complexity.

At this point, according to Mr Christensen, the second, “disruptive”, type of innovation becomes possible. Disruptive technologies target the least demanding customers in the current market, or even entirely new markets of “non-consumers”, by offering something simpler, or cheaper, or both. An example of a disruptive technology that is cheaper but not necessarily simpler is Linux, an open-source operating system that is taking market share from Unix and Windows. And in disruptive-technology battles, Mr Christensen argues, newcomers to the industry almost invariably “crush the incumbents”.

One reason is an asymmetry in financial incentives. A disrupter might look at a million non-consumers and see a huge opportunity, whereas the incumbent sees a drop in the ocean. Initially, moreover, the

incumbent will find being disrupted very pleasant, because the customers that defect first are likely to be the unprofitable ones. As its own profit margins improve, the incumbent will be tempted to ignore the competition. The disrupter now makes its own sustaining innovations until its technology becomes “good enough” to poach the original market, at which point the incumbent is gored.

Another reason why newcomers prevail is a cultural malaise that infects incumbents. Big, successful companies are organised into product divisions, whose managers will keep a close eye on their known rivals' offerings to ensure that their own products retain their edge. The disrupters, however, do not care about products. They observe real people, and specifically non-consumers, to see what jobs they are trying to get done. Today, for instance, Microsoft might take comfort from the fact that Excel has more features than any other spreadsheet, whereas a potential disrupter might note that people are driven to despair when trying to transfer files from an old to a new computer.

Thus, technology has historically advanced in waves of disruption. The original Bell (the ancestor of modern giants such as AT&T, SBC, Verizon and Lucent) began in the late 19th century as a disrupter to Western Union. At the time telephone signals could travel for only three miles, whereas Western Union's telegraphs could communicate over long distances. Bell started by targeting the local market, but eventually improved its technology and entered the long-distance market, rendering telegraphs obsolete.

Sony became famous as a serial disrupter, starting in the 1950s, when its transistor radios skewered the radio standard of the day, vacuum tubes, and that technology's incumbent, RCA. In the 1970s and 1980s, Xerox was the incumbent in photocopiers, rebuffing “sustaining” challenges by IBM and Kodak to make better copiers for the top end of the market, before succumbing to the disruption from simple and cheap table-top copiers from Canon. IBM in turn was the incumbent in mainframes and parried “sustaining” attacks from General Electric, RCA and AT&T, until mainframes were disrupted by PCs and firms such as Microsoft, Intel and Dell. And so on.

Who's next?

Where does that leave the IT, consumer-electronics and telecoms industries today? Many of their current products have far overshot the needs of businesses and consumers, yet failed to help them to get essential jobs done. Moreover, billions of analogues will eventually become digital immigrants, whether for fear of social isolation in rich countries or, in developing countries such as India and China, because they will be able to afford to. These current non-consumers are technology's next frontier.

For corporate buyers of IT, it has become clear in the past three years that their ability to “get jobs done” no longer has much to do with the power and complexity of their computers. Instead, they are increasingly finding that the simplest way to keep track of customers, bills, inventories and so forth is to rent such services for a monthly fee. This suggests that application service providers (ASPs) such as Salesforce.com, in their business models as well as in their technologies, could become disruptive simplifiers at the expense of today's enterprise-software giants.

For consumers, it is increasingly clear that coping with information overload is a big “job to be done”. Google has already acted on that observation by disrupting various old-fashioned owners of directories, such as Yellow Pages. Having moved well ahead with its own sustaining improvements, Google (or a firm like it) stands a chance of becoming a disruptive simplifier at the expense of incumbents such as Microsoft, which does not let consumers store information by content across all applications, making it harder to get at. In telecommunications, mobile phones have for years been disrupting the incumbent fixed-line providers, but now they themselves are in danger of overshooting. Capgemini, a consultancy, has found that most mobile-phone operators vastly overestimate the importance that customers place on premium services, while equally vastly underestimating the importance of simplicity, both in handsets and in pricing plans. This is opening the door to disrupters such as Comviq, in Sweden, which has taken 39% of market share away from the incumbent, Telia, by offering half as many handset features and radically simpler pricing plans.

Wireless and fixed-line telephone companies may simultaneously become vulnerable to new providers of internet telephony or VoIP, such as Skype and Vonage, or networking companies such as Cisco (especially once fast, wireless internet access has become ubiquitous and totally reliable). The disruption could be especially severe if the upstarts not only make calling dirt-cheap or free, but also find ways to help consumers with jobs such as simplifying their communications as a whole or meeting their needs for privacy.

For incumbents this ought to be reason for paranoia, but it need not spell doom. If they play their cards right, they too can take part in the game of disruption—as AT&T, for instance, is trying to do by withdrawing from the residential telephone market at the same time as vigorously marketing its own VoIP service. The key will be to aim for simplicity and affordability.

Everybody else, meanwhile, has cause for optimism. A lot of things that are complex today will get simpler in the coming years. Like other technologies in history, IT and telecommunications seem destined gradually to recede into the background of human activity, leaving more time and energy to get on with the infinite complexities of business, and of life in general.

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From The Economist print edition

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Oil companies' profits

Not exactly what they seem to be

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Reuters

Big western oil companies' record profits may be masking future problems

LEADING oilmen gathered this week in London for the “Oil & Money” conference, an annual expense-account jamboree often preoccupied with the industry's woes. This year, though, the tone was cheerful. Jeroen van der Veer, head of Royal Dutch/Shell, reassured his audience that Americans are “still driving their SUVs to Wal-Mart.” Lord Browne, the boss of BP, gave a sunny speech insisting that without petroleum “the world would be a dark, cold and miserable place.”

The explanation for such exuberance? The remarkable rise in oil prices—from around $10 a barrel in 1998 to an all-time nominal record of $55.67 this week—which has left leading western oil companies awash with cash. On October 28th, Royal Dutch/Shell, which has had a rough time this year due to a scandal involving exaggerated oil reserves, posted a whopping 120% rise in third-quarter profits, to $5.4 billion. Earlier in the week, BP revealed that its third-quarter profits shot up by 43% on a year earlier, to nearly $4 billion.

The big firms have been busy handing back cash to their shareholders in various ways. BP and Exxon Mobil have been buying back shares like mad: BP is likely to purchase $7.25 billion-worth this year; Exxon some $9 billion. Shell has chosen to dole out the windfall as fat dividends.

So oil's well, then? Not quite. Despite their current profitability, the majors face big trouble in three areas: rapidly declining reserves; soaring costs; and lack of access to cheap new reserves. Tom Wallin, head of the Energy Intelligence Group, an industry publisher, argues their future “is more in doubt than at any time since the nationalisations of the 1970s.”

The last spectacular wave of growth for the big western firms came several decades ago after they were kicked out of the giant fields of the Persian Gulf. Out of desperation, Exxon, BP and others poured billions into non-OPEC areas such as the Gulf of Mexico, the North Sea and Alaska.

Alas, those fields are now ageing and their reserves rapidly declining. In its annual *World Energy Outlook*, released this week, the International Energy Agency, a quasi-governmental body, estimates that the size of the “reserve challenge” is staggering. Some $3 trillion will have to be invested in global oil infrastructure between now and 2030 if anticipated demand is to be met, most of it to offset declines in production at existing fields.

The second problem is that costs are soaring. One immediate issue is the weak dollar, the only currency in which oil is priced; this makes it expensive for oil firms to buy in other currencies. Another soaring cost is the price of steel (see article), which BP cited this week as a reason for exceeding its targets for capital spending.

A more worrying cost, however, is that of finding and developing new oil fields. Through the 1980s, the exploration cost per barrel tumbled from around $20 to between $5 and $7 thanks to several breakthrough technologies, including 3D-seismic imaging. Through the 1990s, costs remained fairly flat. Over the past three years, though, they have risen sharply. Douglas Terreson of Morgan Stanley, an investment bank, thinks costs are soaring because the blizzard of breakthroughs that reduced the cost of finding and developing oil has now slowed to a trickle.

Andrew Gould, the head of Schlumberger, an oil-services giant, is not so pessimistic. He thinks that new breakthrough technologies might already be at hand. And yet even he believes that the majors cut research too much and the industry has been slow to adopt new technology. Breakthroughs are clearly needed, though, if firms are to find oil economically in tricky places such as the Siberian tundra or the ultra-deep waters off Africa and Brazil.

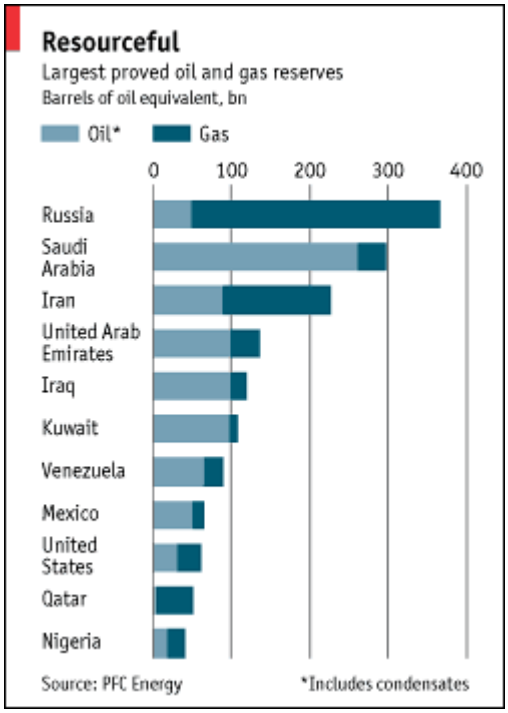
Ian Howat of Total, a French oil giant, argues that these riskier areas are the future for western majors. As it so happens, Total already produces more oil in non-OECD areas than either Exxon or Shell. The reason? “France never had any oil of its own, so we had to go looking.”

The search in such inhospitable places points to the third reason that the big oil firms are in trouble: lack of opportunity. Perversely, the industry's best firms are forbidden to invest in the cheapest and best assets. Saudi Arabia and its four Gulf neighbours sit atop two-thirds of the world's oil—and they have no welcome mat out for the biggest companies.

Going for gas

Do not weep for these firms, though. Alan Kelly, head of corporate planning at Exxon, insists “we are not opportunity-constrained right now”. Lord Browne also rejects the pessimistic view. He points to BP calculations suggesting that the top 30 oil firms have increased their spending on exploration and development from around $70 billion in 2000 to $100 billion last year. He insists that for the next ten years or so, there is “no shortage of investment opportunities” for oil—although after that, he concedes, there is a question mark.

Look, however, at the ways the big companies are spending money in areas other than conventional oil, and it becomes clear that they are slowly transforming themselves into energy firms. One shift is into “unconventional” hydrocarbons, such as the mucky tar sands of Canada and the shale of Venezuela. These can be made into oil, but at greater cost and environmental damage than normal oil. Exxon's boss Lee Raymond recently vowed to produce technological breakthroughs that would make “unconventional oil conventional”.



Another significant way in which the big firms will change, argues Robin West of PFC Energy, is through their push into natural gas. Gas has never been as sexy as oil; indeed, it was often seen as an unwanted by-product. But no more: by 2030 or so gas may pass oil as the dominant global fuel. It is much better distributed around the world than oil (see chart), and countries are generally happy to have help in getting it to market.

And what of green energy? BP says it stands for “Beyond Petroleum”, and Shell makes similarly ambitious claims. But their investment in renewables and hydrogen is trivial compared with the billions they spend each year on oil and gas. With oil at over $50 a barrel and enough hydrocarbons in the ground to last for many decades, that is unlikely to change.

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Exploration in Africa

Oil fry

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The continent is tempting small independent explorers

“WE FEEL more at home in Africa,” says Tim O'Hanlon of Tullow Oil, an Irish firm that is fast expanding on the continent. In May this year Tullow paid just under $600m for Energy Africa, an oil-and-gas firm whose operations spread northwards from Namibia as far as Egypt. Mr O'Hanlon points out proudly that Tullow is exploring or developing fields in 12 African countries, five more than the giant ExxonMobil.

At this month's Global Pacific African oil-and-gas conference, a bustling annual industry event in Cape Town, small firms lined up to boast of new operations in odd places beyond the traditional basins in North Africa and the Gulf of Guinea. Mauritania promises the most exciting new gas reserves, said several speakers. Oil leaks are being explored on islands like Zanzibar, off Tanzania on the continent's east coast, and Madagascar is suddenly a hot spot. Tullow even boasts about “a discovery with the first drill of the well” in landlocked and unlikely Uganda.

Sub-Saharan Africa already delivers some big oil exports, notably from Angola, Equatorial Guinea and Nigeria. Together these produce roughly 3m barrels of oil a day. But the fry are interested in lesser prizes. Flexible small firms are proving adept at using seismic and other data to test curious hydrocarbon deposits all over the place. At times their task is made less risky by the existence of a local market for smaller-scale production. Namibia, for example, is copying Mozambique and hoping to meet growing demands for gas-powered energy within southern Africa.

Conversely, the minnows often move in late to pick over remnants left by bigger fish. They take charge of old and partly-exploited blocks (in parts of West Africa, for instance) that ExxonMobil, Shell or Total no longer find interesting.

In 2003, nine big oil deals were struck in Africa, worth about $2.8 billion, says Jeff Waterous, a consultant for oil firms interested in the continent. Much of this was by small independent firms. The deals accounted for about 11% of world activity, a much higher figure than in Europe, Latin America and the Middle East combined. This year's activity is proving much more frenzied. “There is so much cash out there looking for so few deals,” Mr Waterous told his audience in Cape Town. And they nodded in agreement.

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Steel

Big is back

Oct 28th 2004
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A merger will create the world's biggest steel firm. Consumers, beware

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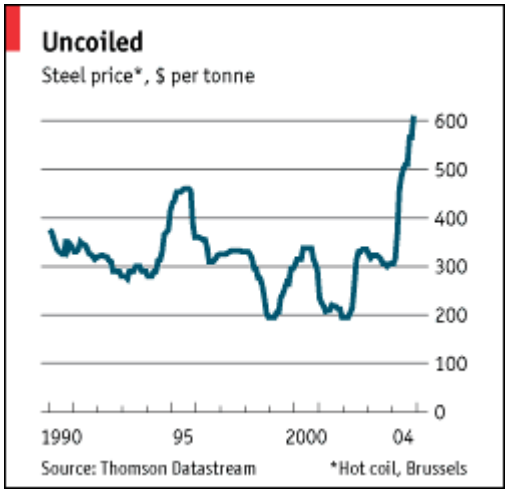

STEEL users should be worried. For years, until last winter, they held the whiphand in setting prices. Since 1990, hot rolled coil in Europe has varied from about $250 to $350 a tonne, with a blip up in 1995 and a double dip that began four years later (see chart). But this year, with a world recovery and China racing like a dragon boat, the price has soared, to near $600. And now comes a tycoon not just planning to put together the world's biggest steel company, with a crude-steel output of almost 52m tonnes this year, but looking to a day when the market is dominated by a handful of producers with 100m tonnes apiece. The boss of Arcelor, today's biggest producer, sees the same future.

The tycoon is London-based Lakshmi Mittal. Lakshmi who?, many outside the industry may wonder. The Mittal dynasty took to steel only in 1975, when its founder, Mohan Lal Mittal, tired of India's semi-socialism and bought a tiny steel firm in Indonesia. But his interests swelled, and in 1994 he gave his elder son, Lakshmi Nivas, control of the holdings outside India. By 1997, the result, Ispat International, was quoted in New York. Since then it and its near-80% owner, LNM, young Mr Mittal's private company, have bought assets across eastern Europe and central Asia.

The result is a steel empire with 35m tonnes of output last year, not too far from Arcelor's 43m, but divided, and little analysed or known. Mr Mittal spends lavishly, but not on publicity. Until a media row in 2002, over his earlier donation of £125,000 ($180,000 then) to Britain's ruling Labour Party, few Britons had heard of the tycoon who had set up home among them.

This week's deal—an agreed one, though antitrust authorities are yet to have their say—will give Mr Mittal 89% control of International Steel Group (ISG), an American firm built up since 2002 on the ruins of the rustbelt by Wilbur Ross, another entrepreneur with a sharp eye for cheap assets that can be stripped of costs and turned to profit. Having bought the assets first of Bethlehem Steel and then of Weirton Steel, ISG is now producing 14.5m tonnes annually, and very profitably.

Where next for world steel? Analysts expect more of the consolidations that Mr Mittal fancies. US Steel (18m tonnes last year), now to face a giant in its own backyard, could well be open to offers. Elsewhere, Germany's ThyssenKrupp (16m tonnes), born of a 1999 merger, has long been looking for partners, both in Europe and America, but so far without success; and its widely reported “deal” for a new Brazilian plant, along with the giant ore company CVRD, is in fact only in embryo at best. A tie-up with Anglo-Dutch Corus (19m tonnes) has been much rumoured.

In Asia, Japan's two giants would risk antitrust trouble in any link-up at home, but the world has some 35 producers in the 5m-15m class; and Korea's POSCO (29m tonnes) is openly eager to reach 50m. There could well be shocks to come from booming China and India too.

Reuters

Lakshmi points to the industry's future

Yet it is not industrial logic that is pushing for mergers: in steel, there is no great practical merit in size. But there is market power. The industry is fragmented: even now, the top six producers share only one-fifth of world output. Fresh from being squeezed by customers, the steelmen in recent months have felt squeezed by their suppliers instead—mining companies such as CVRD and BHP Billiton. Hence their dreams are not only of horizontal integration but of integration upstream too; Mr Mittal's LNM has lots of ore and coal mining of its own.

None of this foretells anything near a steel monopoly. But all of it should put customers, and their antitrust watchdogs, on their guard.

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Naval shipyards

Pipe dreams aboard

Oct 28th 2004 | PARIS
From The Economist print edition

The French want to consolidate Europe's naval yards

TWO weeks ago, Wolfgang Clement, Germany's economics minister, was so irritated by his French counterpart Nicolas Sarkozy's pronouncements on plans to create the naval equivalent of the European Aeronautic Defence and Space Company (EADS) that he cancelled a meeting planned for October 14th at the very last minute. But, during several get-togethers this week, including a run in a Berlin park, Mr Clement and Mr Sarkozy made amends. Germany is now officially endorsing the idea of the creation of a European naval champion. Making it happen, however, will be no jog in the park.

Even fierce critics of Mr Sarkozy's interventionism admit that Europe's naval shipyards need to consolidate to bring down defence-procurement costs. Over-capacity and falling government orders plague the industry, which also faces competition for non-European orders from more efficient American and Asian yards. America, for instance, has only two big naval shipbuilders with six yards, while fragmented Europe has no fewer than 21 firms with 23 yards. So there is plenty of potential for consolidation.

Yet obstacles to the forming of a big European naval company are huge. France, Spain and Italy first need to merge shipyards at home. Defence is the most political of industries, and trade unions will resist the inevitable job cuts that will come with even national consolidation.

Germany is one step ahead of its neighbours in consolidating the industry. ThyssenKrupp, a big steel company, recently took over Howaldtswerke-Deutsche Werft (HDW), Germany's biggest shipyard, which had passed into the hands of an American private-equity firm. The new group, ThyssenKrupp Marine Systems, employing some 9,200 people, should get approval from German and EU antitrust authorities in the next few weeks.

Consolidation of France's defence shipbuilding took a step forward on October 25th when Michèle Alliot-Marie, the French defence minister, announced plans at a naval trade show near Paris to privatise as much as 49% of DCN, the state's yard. This will make it easier for DCN to merge with the naval business of Thales, a privatised defence-electronics group. Thales has been dragging its heels, despite prodding from the government, which still holds a 30% stake in it. But now that DCN has been knocked into shape, with its bloated 28,000 labour force cut to 12,000, Thales boss Denis Ranque can see some advantages in having a shipyard business as part of his company's defence portfolio.

If DCN and Thales Naval were to merge next year, they could then start talking to ThyssenKrupp Marine Systems. Satisfying German and French national sensibilities, though, will not be easy. The main sticking points will be the new entity's ownership, the location of its headquarters and the perimeter of its activity. Neither side wants to give up control. Thanks to Mr Sarkozy's repeated meddling in business to promote French interests, Germans are under the impression that a fair partnership with the French is not possible, says Jürgen Rohwedder, a spokesman for HDW.

Winning over organised labour will be tricky too. The European Metalworkers' Federation (EMF), which also represents shipyard workers, is already on the case. Though the union is in theory in favour of the creation of a naval EADS, it is determined to “control” labour relations. “We do not want to become involved in a battle of the jungle,” says Reinhard Kuhlmann, EMF's general secretary in Brussels.

Not surprisingly, many in the industry are sceptical about the likelihood of a pan-European naval group being established in the near future. Italy's Fincantieri and Finmeccanica, who together own Orizzonte Sistemi Navali, a naval-systems company, are watching the Franco-German tug-of-war from the sidelines. Meanwhile Spain's Izar is focused on its own internal problems. SEPI, Izar's state holding

company, recently had to postpone plans to split the loss-making Izar group's four military and six civilian shipyards into separate companies because of fierce resistance to the job cuts involved.

Jean-Marie Poimboeuf, boss of DCN, thinks it will take from two to five years to bring together French, German, Italian and Spanish shipyards. And he is the most optimistic of Europe's shipyard bosses. But at least he can count on the French government's help, and on support, albeit reluctant, from the Germans.

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Economist.com BUSINESS
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Cruise liners

Till death us do part

Oct 28th 2004
From The Economist print edition

A new market for floating hotels

ARE you haunted by thoughts of spending your golden years vegetating in a dingy old folks' home, supping on denture-friendly peas and boiled beef, and playing endless rounds of cribbage? Fear not, there is a cost-effective alternative: life on a cruise ship. A year in an “assisted-living facility” costs Americans, on average, around $28,500 a year. In large cities such as Chicago, costs are even higher, topping $40,000. Living in a dedicated cabin aboard the Royal Caribbean's *Majesty of the Seas*, on the other hand, rings in at a rather competitive $33,260 a year.

Luxury liners offer many of the same amenities as old folks' homes: meals and housekeeping, laundry and hair-dressing services, and even an escort to dinner. They have handgrips in the toilets and walk-in showers. And they also provide plenty of things that land-based facilities do not—such as premium-grade ozone, nightly entertainment and round-the-clock access to medical care.

“Cruise ships could be considered as a floating assisted-living facility,” says Lee Lindquist, a geriatrician at Northwestern University's Feinberg School of Medicine in Chicago. She first took a cruise last year and was struck by the untapped potential. She has now proposed a new model for old-age living, which she calls “cruise-ship care”, to be published in November's *Journal of the American Geriatrics Society*.

Over and above the competitive pricing, Ms Lindquist thinks that cruise ships will actually provide a better service to the elderly. It is hard to beat their staff-to-client ratio—one employee for every two or three passengers, compared with one for every 10-40 residents in the average home. And while the rooms may be smaller, the dance-halls and decks should more than compensate. The extra incentive to get out and about could add years to an old person's life.

Dining-room staff on cruise liners routinely memorise patrons' preferred dinner drinks, and have them ready when they arrive at their table; medications might be dispensed in a similar fashion, suggests Ms Lindquist. And who knows, maybe fewer drugs will be needed: about a quarter of elderly people suffer from depression, she says, but the combined effects of sun and socialisation might help combat that.

Ms Lindquist envisions no more than 15% of a ship being dedicated to old folks so that they are able to mingle with the more youthful regular clientele, a clientele that could become even younger. Grandchildren may well be more inclined to visit granny if she lives aboard a liner in the Caribbean than in an old folks' home on the fringes of Chicago.

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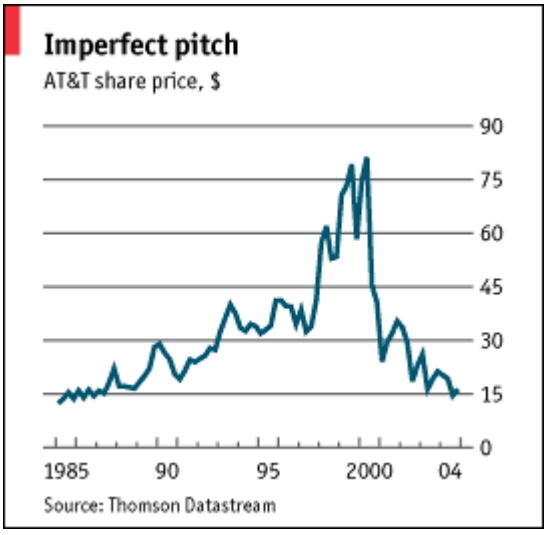
AT&T

Great-grandma Bell

Oct 28th 2004
From The Economist print edition

Is the once great telecoms company on its last legs?

CHURCHES have altars, royalty has thrones, and AT&T has its network. For over 125 years, this was the source of the telecoms company's power and its most prized asset. Yet as telecoms capacity has become a commodity, the value of owning a network has diminished dramatically. It has forced AT&T to search for new areas of growth, but its prospects are not promising.



Last week, the company's latest earnings figures included an $11.4 billion write-down of its assets, forced by a fall in prices due to competition and technologies such as “voice over internet protocol” (VOIP). The troubles which AT&T faces are severe. The company earns roughly half its revenue by charging for long-distance calls, but these earnings are tumbling at around 20% a year and will never recover. Long-distance calls using VOIP are essentially free.

The company is therefore between a rock and a hard place: it must migrate to the more efficient technology without cannibalising its existing revenue, at a time when there is a plethora of competitors. This dilemma has been predicted by telecoms pundits for a decade, but AT&T never developed a suitable strategy to cope. Its plan now is to slow its decline in income and cut debt by continuing to slash its workforce. It hopes that a better balance sheet will help as it hunts for new business, focusing on large corporate accounts, which make up about 60% of its revenue. It is also betting on managing business customers' own networks to boost revenues.

The company drew back from marketing to residential customers this summer after a regulatory decision increased the prices it would have to pay to access the lines of America's local telecoms operators—the “Baby Bells” that were spun out of AT&T 20 years ago. AT&T's desire is to sell VOIP over broadband, and it has struck a number of marketing deals with cable companies, which own a line into people's homes. It is a sad outcome for a company which, in the 1990s, acquired cable companies for this very purpose, but was forced to dispose of them a few years later when the cost of upgrading the lines and its heavy debt got in the way.

AT&T's foundering fortunes come amid difficulties in the telecoms industry as a whole. America's second- and third-largest long-distance companies, MCI and Sprint, are also suffering from the glut of telecoms capacity and the fast erosion of revenue from selling voice-minutes. Newer rivals, like Level 3 and Global Crossing, are ailing too. Analysts predict a consolidation of today's ten-or-so long-haul networks to around four. “The industry needs to restructure,” says Tim Horan, an analyst at CIBC, an investment bank. “AT&T has a future—we just don't know in what form.”

Can AT&T weather the storm? Touting the quality of its network may attract large companies which need time and help in switching their existing computing applications on to an internet platform. Moreover, the company plans to enter the attractive wireless market for business customers in six months as a “virtual operator” by buying capacity on Sprint's mobile network. This follows the sale of AT&T Wireless to Cingular, which was approved (with conditions) by regulators this week.

AT&T has not had much success in adapting to new technologies and to competition since it was broken up 20 years ago. “All the old-model telcos are on their way out,” says David Isenberg, a telecoms expert

who accurately predicted the fall in value of AT&T's network in the 1990s when he worked for the company's famed Bell Labs (though his warnings went unheeded and he resigned). “AT&T”, he adds, “will show them the way.”

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Freight transport

Going nowhere

Oct 28th 2004 | LOS ANGELES AND WASHINGTON, DC
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Gridlock on the rails, roads and ports of America

JIM YOUNG, president of Union Pacific, America's biggest railway company, told analysts last week that the company was “preparing for a tough winter”. The season will bring far more trouble than mere snow on the track. Inefficiencies in the industry are leaving customers in the lurch just as demand for freight shipping is at its peak. Retailers are stocking up with Christmas fare and farmers have begun packing off their harvests.

But UPS, the railways' biggest customer, complains of congestion on tracks in the west, and Dow Chemical, which has big plants around a Union Pacific hub in Houston, says that delayed shipments have cost it millions of dollars. Some utilities, which want at least a month's supply of coal on hand, are down to two weeks' due to slow rail deliveries.

Part of the problem goes back to 2001 when Congress passed the Railroad Retirement Act. This allowed long-serving employees to retire with full benefits two years earlier. And lots did. So the railways became badly short-staffed just in time for last year's bumper harvests and the economy's rebound. A shortage of locomotives made things worse.

Union Pacific and others are now hiring madly—the industry plans to add some 80,000 staff over the next five years or so. CSX, a struggling Florida-based carrier, is adding 1,400 new employees to its rail crews. But it takes six months to recruit and train specialised engineers.

Meanwhile, customers are restive. Michael Grisso of the Alliance for Rail Competition, a lobby group, says that monopoly power is the problem. The industry was deregulated in 1980, but since then mergers have reduced the number of big railway companies to a handful. Nearly a third of rail-industry revenues comes from “captives”—grain farmers in Idaho, for example, who have no alternative but to use the local railway, which both owns the track and operates the trains. Railways and major league baseball, notes Mr Grisso, are the only two businesses in America that are exempt from antitrust laws. He wants Congress to push for fairer contracts and pricing.

As the railways falter, America's truckers have picked up some of the slack. These two traditionally rival industries now work more closely together. “Intermodal shipping”, in which truck-trailers carrying consumer goods spend part of their journey on trains (containers from 280 trucks can fit on one freight train), is the fastest-growing piece of the railways' business. Yet Bill Zollars, boss of Yellow Roadway, America's largest trucking firm, says that poor rail services have forced him to put 20,000 intermodal shipments each month back on to trucks.

Now, however, trucking too is near capacity. Roads are congested and good drivers, like railway engineers, are hard to find. Truckers must be over 21, willing to spend long hours away from home, speak English and have no felony convictions. Disconcertingly few Americans actually fit that description, at least among those who want to be truckers.

Worse than the trucks or the rails may be the ports. Those in southern California especially are in a mess. The Los Angeles/Long Beach complex is the busiest in the world after Hong Kong and Singapore, channelling about half the $750 billion-worth of cargo that moved through the west coast last year. This year, a surge in trade has caused traffic to rise by 10%, double the level predicted by the port authorities. Up to 90 vessels a week can be seen waiting to load or unload their cargoes, more than twice the usual number.

Two months ago the powerful International Longshore and Warehouse Union and the port authorities

agreed on a lottery to hire 3,000 temporary dockworkers—and some 300,000 applied for jobs that pay a handsome $20-28 an hour, almost four times the minimum wage. But manpower alone will not solve the problem.

The port authorities want to extend working hours, offering rebates to firms willing to pick up cargoes at night or on the weekend, periods which account for less than 20% of cargo movements. The trouble with this idea is that local residents have already had their fill of the pollution and extra traffic caused by the port complex—and they will lobby hard to stop their evenings and weekends being still more afflicted. Meanwhile, the furniture and fripperies from China keep piling up.

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Face value

Beyond the waterfront

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LANDOV

How Chris Corrigan is redirecting Australia's hidebound transport industry

ASK Australians what was their country's landmark industrial event during the past 50 years or so, and many will name the waterfront war of 1998. That was when Chris Corrigan, head of Patrick Corporation, a cargo-handling company, took on the “wharfies”, Australia's stevedores, and smashed their union's control of the docks. Few Australians had heard of Mr Corrigan at the time, but he brought about an industrial showdown the likes of which had not been seen before or since. His use of non-union contract workers, some concealing their identities under balaclavas and spirited across violent picket lines, did, however, echo the tactics of another Australian businessman, but in a different country. Mr Corrigan had quietly noted how Rupert Murdoch, then an Australian, had used a similar game plan to destroy the power of Britain's print unions 12 years earlier.

Since his victory, Mr Corrigan has added a rail-freight company and an airline to Patrick Corporation's stable. All three businesses are now part of his strategy of forging Australia's biggest transport revolution since it first started to overcome the “tyranny of distance”.

Outwardly, Mr Corrigan seems an unlikely figure to take this on. His retiring manner belies the buccaneering image of Australian entrepreneurs. Conspicuous consumption and bragging to journalists about takeover deals are not his style. Many of the Australians who lived such lives in the 1980s, swallowing businesses they barely understood in order to build empires that later crashed, are now dead, faded or still facing court battles. At the time, Mr Corrigan was an investment banker, the head of Bankers Trust Australia. In that role he successfully challenged the cosy, cartel-like work practices of Australia's stockbrokers, as he later did those of the unions. While other banks were throwing money at the high-flying entrepreneurs of the era, Mr Corrigan says he found them “dodgy individuals, obvious business frauds”. He avoided lending to them.

His career almost came to a premature end last year. While pulling weeds in his son's garden at Palm Beach, north of Sydney, he fell backwards over a cliff, landed on rocks and cut his head. Unable to climb up again, he lost almost half his blood before he was found just in time to be bundled off to hospital. He laconically shrugs off any suggestion that the drama might have given him second thoughts about his approach to taking risks. “If it did, I haven't noticed,” he says. He returned to his office three days after the accident to continue working on his shake-up of Australia's transport industry.

Mr Corrigan's victory over the unions in the docks war led to a four-fold increase in productivity per worker at Patrick's freight terminals in Brisbane, Melbourne and Sydney, the three eastern ports that handle the bulk of Australia's trade. His next step was to integrate the rail-freight transport system with the ports. In 2002, Patrick Corporation joined with Toll Holdings, a transport company, to buy the rail-freight business of the federal government and that of the state of New South Wales. They were then folded into a new company, Pacific National.

The problem this time was not the unions, who readily agreed to a new deal, but the cack-handed government management under which Australia's rail network had fallen into decline. Only about 15% of freight on the vital Melbourne-Brisbane corridor is carried by rail; the rest goes by road. Pacific National is aiming to raise that to 70% in five years.

Mr Corrigan is frustrated by the fact that Australia's rail tracks still have seven different state and federal government owners, and some 30 regulators. “One government isn't better than another,” he says. “They're all hopeless at running businesses.” He has floated a proposal to build a new fast-freight line between Melbourne and Brisbane, but he is still short of the A$3 billion ($2.2 billion) he says such a line would cost. Nevertheless, Pacific National's arrival as a tough, competitive rail-freight operator has put the trucking companies on their toes.

Virgin blues

The same year that it bought the rail-freight businesses, Patrick Corporation also bought a controlling stake in Virgin Blue, a low-cost Australian airline which Sir Richard Branson, the founder of Britain's Virgin group, launched four years ago. There was no obvious synergy between ports and airlines, except that Virgin Blue, by tackling the near monopoly once held by Qantas, the national airline, appealed to Mr Corrigan's desire to smash established moulds. Only a third of the new airline's staff is unionised, compared with two-thirds at Qantas.

Flying around Australia today has never been cheaper. Last May Qantas launched its own low-cost airline, Jetstar, to meet Virgin's challenge. But there are questions about whether a relatively small market of 20m people can sustain three competing airlines. Indeed, the price war, Virgin's hefty investment in a bigger fleet, and soaring oil prices have already brought problems. This week, Virgin's share price fell to its lowest point since its listing in December last year; and in September, it stopped flying between Sydney and Canberra, the national capital, whose politicians and civil servants largely shunned the no-frills carrier. Mr Corrigan is not bothered by the snub. The air war, he says, will continue for several years.

In his bid to create freer transport markets, Mr Corrigan still faces the same obstacle that took him to war on the wharves: the country's failure to deregulate its labour market the way it has reformed other parts of its economy. The recently re-elected government of John Howard may be about to change that. But Mr Corrigan believes the failure is deep-seated, stemming from Australia's ethos of treating work as a distant second to sport. “If we approached our work as if it was a sport, we could be world class,” he says.

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The music industry

Music's brighter future

Oct 28th 2004
From The Economist print edition

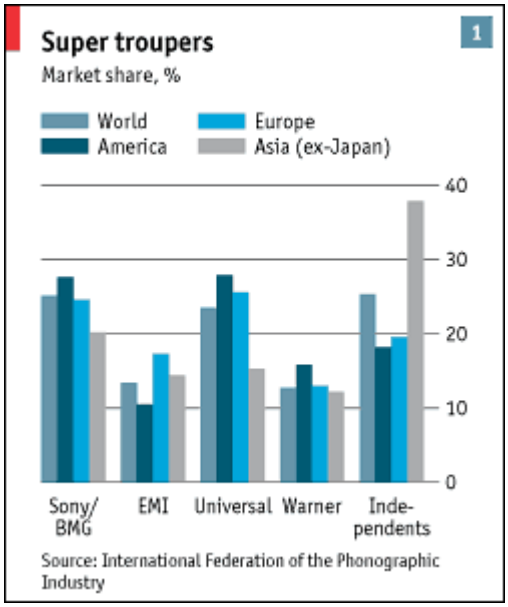
Rex

The internet will eventually be wonderful for music buyers, but it is still a threat to today's dominant record labels

Get article background

"DIRTY pop with wonky beats and sleazy melodies" is how the Sweet Chap, aka Mike Comber, a British musician from Brighton, describes his music. The Sweet Chap has no record deal yet, but he has been taken on by IE Music, a London music-management group that also represents megastar Robbie Williams. To get the Sweet Chap known, last year IE Music did a deal to put his songs on KaZaA, an internet file-sharing program. As a result, 70,000 people sampled the tracks and more than 500 paid for some of his music. IE Music's Ari Millar says that virally spreading music like this is the future.

It may indeed be, and nimble small record labels and artist-management firms will certainly get better results as they find ways to reach more people via the internet. But the question facing the music industry is when that future will arrive. And the issue is most urgent for the four big companies that dominate the production and distribution of music—Universal, Sony/BMG, Warner and EMI (see chart 1). So far they have been slow to embrace the internet, which has seemed to them not an opportunity but their nemesis. Rather than putting their product on file-sharing applications, they are prosecuting free-download users for theft. They have certainly been struggling: sales of recorded music shrank by a fifth between 1999 and 2003.



Today, there is more optimism. In the first half of this year, global physical unit sales of recorded music rose, albeit by a tiny amount. The industry claims that file-sharing has stabilised thanks to its lawsuits. The number of music files freely available online has fallen from about 1.1 billion in April 2003 to 800m this June, according to IFPI, a record-industry body. That said, internet piracy is rampant, and physical CD piracy continues to worsen.

But big music's attitude towards the internet has changed, too. Over the past four years the big companies have come a long way towards accepting that the internet and digital technology will define the industry's future. Thanks to Apple and its enormously popular iPod music players and iTunes

download service, most music executives now believe that people will pay for legal online music. (Although they have mushroomed, legal online downloads account for less than 5% of industry revenues.) The big companies are trying to work out how they can harness the internet. Consequently, they are having to rethink their traditional business models.

In the physical world, the big companies have the advantage of scale. In addition to marketing clout, they own a large back catalogue of music that can be repeatedly reissued. They are also bolstered by music-publishing businesses, which collect royalties on already published songs used in recorded music, live performance, films and advertisements.

Historically, the majors have controlled physical distribution of CDs. Yet that barrier to entry will erode as more music is distributed on the internet and mobile phones. Artists can, in theory, use the internet to bypass record firms, though few have yet done this. The principal reason most have not is that they need marketing and promotion, which the majors also dominate, to reach a wide audience.

The majors have a tight hold on radio, for example, by far the most effective medium for promoting new acts. (Perhaps their lock is too strong: Eliot Spitzer, New York's attorney-general, is investigating whether the companies bribe radio stations to play their music.) Could the internet challenge them on this too? So far, bands have not been launched online. But that could change, and there is already evidence that data derived from the preferences shown on illegal file-sharing networks are being used to help launch acts.

Much will depend on whether the majors choose to address a problem that is just as important as piracy: these days they rarely develop new artists into long-lasting acts, relying instead on short-term hits promoted in mainstream media. That has turned off many potential buyers of new music. In future, using the internet, the industry will be able to appeal directly to customers, bypassing radio, television and big retailers, all of which tend to prefer promoting safe, formulaic acts. That could give the majors the confidence to back innovative, edgy music. But much smaller independent labels and artist-management firms can do the same, offering them a way to challenge the big firms head on.

Even in the physical world, the big firms are struggling to maintain their traditional market. Supermarkets have become important outlets, but the likes of Wal-Mart stock only a narrow range of CDs, choosing to shift shelf-space away from music in favour of higher-margin DVDs and videogames. That is a symptom of another headache for all music firms: they face ever more intense competition from other kinds of entertainment, especially among the young. In theory, then, digital technology offers the majors an escape hatch. With infinite space and virtually free distribution online, every track ever recorded can be instantly available to music fans. Of course, smaller firms will be able to do the same thing.

Where did all the music go?

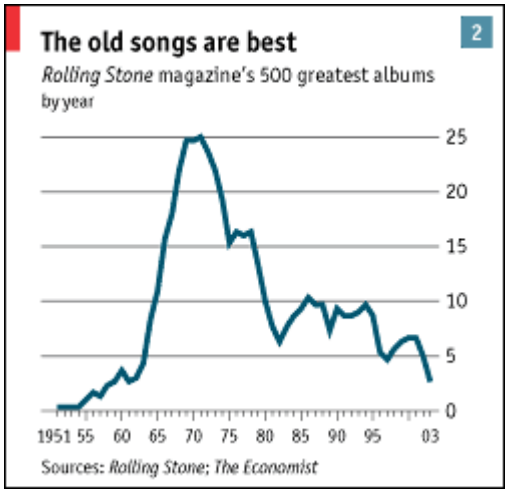
According to an internal study done by one of the majors, between two-thirds and three-quarters of the drop in sales in America had nothing to do with internet piracy. No-one knows how much weight to assign to each of the other explanations: rising physical CD piracy, shrinking retail space, competition from other media, and the quality of the music itself. But creativity doubtless plays an important part.

Judging the overall quality of the music being sold by the four major record labels is, of course, subjective. But there are some objective measures. A successful touring career of live performances is one indication that a singer or band has lasting talent. Another is how many albums an artist puts out. Many recent singers have toured less and have often faded quickly from sight.

Music bosses agree that the majors have a creative problem. Alain Levy, chairman and chief executive of EMI Music, told *Billboard* magazine this year that too many recent acts have been one-hit wonders and that the industry is not developing durable artists. The days of watching a band develop slowly over time with live performances are over, says Tom Calderone, executive vice-president of music and talent for MTV, Viacom's music channel. Even Wall Street analysts are questioning quality. If CD sales have shrunk, one reason could be that people are less excited by the industry's product. A poll by *Rolling Stone* magazine found that fans, at least, believe that relatively few “great” albums have been produced recently (see chart 2).

Big firms have always relied on small, independent music firms for much of their research and development. Experimental indies

signed Bob Marley, U2, Pink Floyd, Janet Jackson, Elvis Presley and many other hit acts. Major record labels such as CBS Records, to be sure, have signed huge bands. But Osman Eralp, an economist who advises IMPALA, a trade association for independent music companies in Europe, estimates that over 65% of the majors' sales of catalogue albums—music that is at least 18 months old—comes from artists originally signed by independents.



In the past, an important part of the majors'R&D strategy was to buy up the independent firms themselves. But after years of falling sales and cost-cutting, the majors have little appetite for acquisitions, and now rely more on their own efforts.

What Mr Levy calls music's “disease”—short-term acts—is not solely a matter of poor taste on the part of the big firms. Being on the stockmarket or part of another listed company makes it hard to wait patiently for the next Michael Jackson to be discovered or for a slow-burning act to reach its third or fourth breakthrough album. The majors also complain that the radio business is unwilling to play unusual new music for fear of annoying listeners and advertisers. And while TV loves shows like “Pop Idol” for drawing millions of viewers, such programmes also devalue music by showing that it can be manufactured. Technology has made it easy for music firms to pick people who look good and adjust the sound they make into something acceptable, though also ephemeral.

The majors could argue that they can happily carry on creating overnight hits; so long as they sell well today, why should it matter if they do not last? But most such music is aimed at teenagers, the very age group most likely to download without paying. And back-catalogue albums make a great deal of money. The boss of one major label estimates that, while catalogue accounts for half of revenues, it brings in three-quarters of his profits. If the industry stops building catalogue by relying too much on one-hit wonders, it is storing up a big problem for the future.

A new duet

There are signs that the majors are addressing the issue. Universal Music and Warner Music are starting up units to help independent labels with new artists, both promising initiatives that show that they are willing to experiment. Thanks to the majors' efforts in the last few years, their music has already improved, says Andy Taylor, executive chairman of Sanctuary Group, an independent, pointing to acts such as the Black Eyed Peas (Universal), Modest Mouse (Sony), Murphy Lee (Universal) and Joss Stone (EMI).

And yet even if they can shore up their position in recorded music, the big firms may find themselves sitting on the sidelines. For only their bit of the music business has been shrinking: live touring and sponsorship are big earners and are in fine shape. In the past 12 months, according to a manager who oversees the career of one of the world's foremost divas, his star earned roughly $20m from sponsorship, $15m from touring, $15m from films, $3m from merchandise and $9m from CD sales. Her contract means that her record label will share only in the $9m.

In 2002 Robbie Williams signed a new kind of deal with EMI in which he gave it a share of money from touring, sponsorship and DVD sales as well as from CDs, in return for big cash payments. Other record firms are trying to make similar deals with artists. That will be difficult, says John Rose, former head of strategy at EMI and currently a partner at the Boston Consulting Group in New York, because many artists, and their managers, see record companies less as creative and business partners than as firms out to profit from them.

Artists' managers will resist attempts to move in on other revenue streams. Peter Mensch, the New York-based manager of the Red Hot Chili Peppers, Shania Twain and Metallica, says “we will do everything and anything in our power to stop the majors from grabbing any share of non-recorded income from our bands.” Mr Mensch says that one way to fight back would be to start his own record company.

Independent labels are also gunning for the big firms. For one thing, they are fighting to stop further consolidation among the majors because that would make it even harder for the independents themselves to compete for shelf space and airplay. IMPALA will soon take the European Commission to court for allowing Sony and BMG to merge earlier this year. But the small firms are also optimistic that

they can grow at the expense of their big rivals. The majors are cutting back in smaller markets and dropping artists who lack the potential to sell in lots of countries. That leaves a space for the indies. For example, Warner Music Group is thought to be readying itself for an initial public offering in 2005 and, as part of cutting costs in Belgium, it dropped artists this year. Among them was Novastar, whose manager says the group's latest album has so far sold 56,000 copies in Belgium and Holland.

The more the majors scale back, the more the market opens up. People who have left the big firms are starting up new ventures. Emmanuel de Buretel, previously a senior manager at EMI, is about to launch an independent record label called “Because”, with help from Lazard, an investment bank. Tim Renner, formerly chairman of Universal Music in Germany, will soon set up a music internet service, a radio station in Germany and possibly a new record label.

In the material world

Meanwhile, the majors are trying to plot their move to digital. Making the transition will be tricky. Bricks-and-mortar music retailers need to be kept happy despite the fact that they know that online music services threaten to make them obsolete. It is still unclear what a successful business model for selling music online will look like. People are buying many more single tracks than albums so far. If that persists, it should encourage albums of more consistent quality, since record companies stand to make more money when people spend $12 on a single artist than if they allocate $2 to each of six bands. Or it could mean that the concept of the album will fade.

Online pricing is unstable too. It is likely that download prices will vary in future far more than they do now. Apple forced the industry to accept a fixed fee per download of 99 cents, but the majors will push for variable, and probably higher, prices. Online prices will have an impact on prices in the physical world, which are already gradually falling in most markets. But the result of all these variables might be structurally lower profits.

Edgar Bronfman junior, chairman and chief executive officer of Warner Music Group, expects that paid-for digital-music services via the internet and mobile phones will start to have a measurable impact on music firms' bottom lines as soon as 2006. The new distribution system will connect music firms directly with customers for the first time. It will also shift the balance of power between the industry and giant retailers. Wal-Mart, for instance, currently sells one-fifth of retail CDs in America, but recorded music is only a tiny proportion of its total sales.

The best distribution of all will come when, as many expect, the iPod or some other music device becomes one with the mobile phone. Music fans can already hold their phones up to the sound from a radio, identify a song and later buy the CD. At $3.5 billion in annual sales, the mobile ringtone market has grown to one-tenth the size of the recorded music business.

But can paid-for services compete with free ones? The paying services need to put more catalogue online if they want to match the file-sharing networks with their massive music libraries. And it is still unclear how much “digital-rights management”—technology that restricts how a music download can be used—people will tolerate. Another key issue is interoperability: whether the various new devices for playing digital music will work with other online stores. Apple's iPods, for instance, work with iTunes, but not with Sony Connect or Microsoft's MSN Music Store. Too many restrictions on the paid-for services may entrench file-sharing.

Out of the more than 100 online music sites that exist now, a handful of big players may come to dominate, but there will be specialist providers too, says Ted Cohen, head of digital development and distribution at EMI. iTunes is like the corner store where you buy milk and ice cream, he says, but a customer does not spend much time there. Real Networks'Rhapsody, on the other hand, charges a monthly subscription in return for unlimited streaming music and gives descriptions that lead people to new artists. Recommendation services like these, as well as people sharing playlists, will eventually make the internet a powerful way to market music as well as to distribute it.

Jiving with the enemy

In September, according to comScore Media Metrix, 10m American internet users visited four paid online-music services. The same month another 20m visited file-sharing networks. The majors watch

what is being downloaded on these networks, although they do not like to talk about it for fear of undermining their legal campaign.

Online music might truly take off if the majors were to make a truce with the file-sharing networks. The gulf between the two worlds has narrowed now that the industry sells its product online and allows customers to share music using digital-rights management. As for the file-sharing networks, “the other side is more willing to talk and less adversarial,” says an executive at one of the majors in Los Angeles.

Music industry executives say that Shawn Fanning, founder of Napster, the first file-sharing network, is working out how to attach prices to tracks downloaded from such services, with a new venture called “Snocap”. Mr Fanning tried to make the original Napster legal back in 2001, but the music industry decided instead to sue it out of existence. Sam Yagan, boss of eDonkey, currently the most popular file-sharing network, says he had meetings with three of the four major labels last summer about how his network could start selling their music alongside free content. As IE Music's experiment shows, that is not an impossible dream. Music executives may not have the confidence yet to make a deal with their arch-enemies. But eventually they have to get bolder. It seems clear that the only way for the majors to stay on top of the music industry into the next decade is to take more risks—both technological and creative—than they have done for a long time.

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The dollar

The wolf at the door

Oct 28th 2004
From The Economist print edition

A further steep decline in the dollar seems inevitable

Get article background

MOST economists, and this newspaper, have been fretting about America's huge current-account deficit and predicting the dollar's sharp decline for years. The trouble with crying wolf too often is that people stop believing you. After slipping 14% in broad trade-weighted terms since 2002, the dollar had stabilised this year, even as the current-account deficit continued to grow. This has encouraged some economists to offer theories explaining why America's current-account deficit does not matter and why the dollar need not fall further. But the dollar has now started to slide again: this week it hit $1.28 against the euro, within a whisker of its all-time low of $1.29. Trust us, the wolf is real.

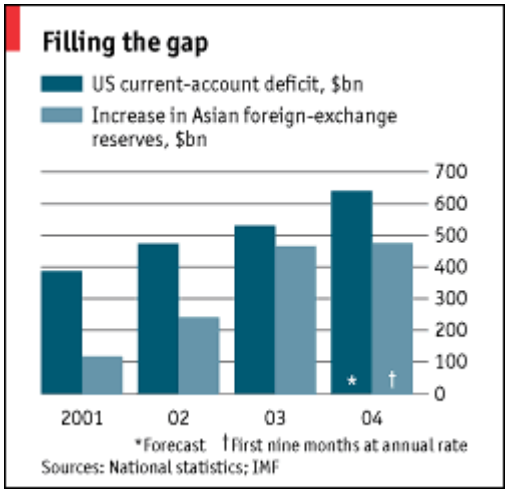
The dollar's latest slide seems to have been triggered by uncertainty about the presidential election and a flurry of comments from Fed officials. Robert McTeer, the president of the Dallas Federal Reserve, mused (only “theoretically” of course) that when capital inflows into America dry up, “there will be a crisis that will result in rapidly rising interest rates and a rapidly depreciating dollar that will be very disruptive”.

Policymakers' usual reply when asked about exchange rates is to say that they are set by the market. But if the dollar was truly being set by the market it would now be much weaker. The dollar has fallen by over 30% against the euro since 2001, but its trade-weighted index has fallen by much less because of heavy intervention by Asian central banks, aimed at holding down their currencies against the dollar. This policy seems likely to continue, despite China's decision this week to raise interest rates for the first time in nine years. That decision was aimed at curbing its overheating domestic economy, rather than bolstering its currency.

Because Asian currencies have been held down against the dollar, America's current-account deficit has continued to swell, reaching almost 6% of GDP in the second quarter. The dollar is already below most estimates of its fair value against the euro, but it will need to undershoot if the deficit is to be reduced. Economists at UBS estimate that the dollar's trade-weighted value might need to fall by another 20-30% to trim the deficit by enough to stabilise the ratio of America's external liabilities to GDP. Though it might seem unthinkable, that could imply a rate of around $1.70 against the euro.

Other economists, however, argue that America can sustain its

large current-account deficit for at least another decade, without a sharp fall in the dollar, because it will be happily financed by China and other Asian countries. In a series of papers Michael Dooley, David Folkerts-Landau and Peter Garber at Deutsche Bank have argued that the present arrangements resemble a revived Bretton Woods, the system of fixed exchange rates after the second world war.



Asian economies, they argue, have chosen to link their currencies to the dollar at undervalued rates, supported by heavy purchases of dollar reserves. Asian countries want to keep their exports cheap to support rapid growth and are in consequence happy to keep acquiring dollars indefinitely. In turn, by buying Treasury bonds, they reduce interest rates, which supports spending and ensures that American consumers keep buying Asian goods.

Since 2001, Asia's official reserves have increased by $1.2 trillion, equivalent to two-thirds of America's cumulative deficit over that period. Currency intervention by Asian central banks helps to explain why America has so far been able to finance its deficit without higher American bond yields or a bigger fall in the dollar. However, the claim that the deficit is sustainable for another decade is highly dubious.

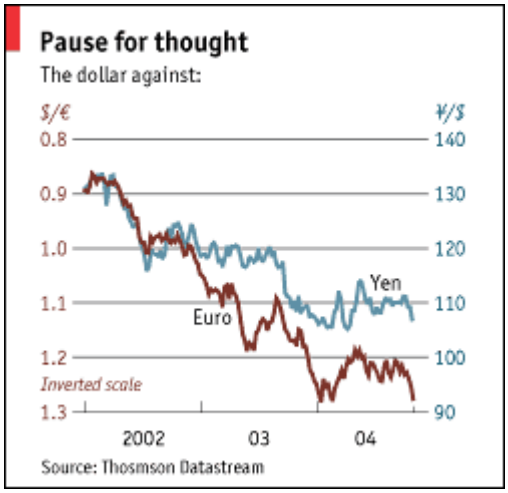
An excellent paper by George Magnus, an economist at UBS, argues that the parallels with Bretton Woods are superficial. One big difference is that in the 1960s the United States ran a current-account surplus and was a net creditor to the rest of the world. Today, America is the world's biggest debtor, which could undermine the dollar's role as an anchor currency.

Second, it is wrong to describe the Asian countries as habitual “peggers”. In the 25 years to 1998, non-Japanese Asian currencies typically fell against the dollar, and over the same period their countries mainly ran current-account deficits, not surpluses. Their more-firmly-tied exchange rates and current-account surpluses generally date only from 1998 when these countries needed to rebuild reserves after the Asian crisis. Their desire to tie their currencies to the dollar may be a temporary response to a cyclical problem.

A third important difference is that, unlike under the Bretton Woods regime, most Asian countries have scrapped capital controls or where they still exist, as in China, they are leaky. This requires much greater “sterilisation” by central banks to prevent an increase in reserves spilling into faster credit growth. As sterilisation has become less effective, excessive credit growth is pushing up inflation and causing overinvestment in property, especially in China. As the inflationary costs of maintaining their link to the dollar grow, Asian countries may shift to more flexible regimes.

Lastly, under Bretton Woods there was no real alternative to the dollar as a reserve currency. Today there is the euro, into which Asians could diversify.

Mr Magnus reckons that the revived Bretton Woods is an illusion which will crack within a year or two. Even if it lasts longer, it is a dangerous way to run the world, for it encourages both China and America to pursue reckless policies. Excessive liquidity is causing the Chinese economy to overheat. Meanwhile, by buying Treasury bonds, Asian central banks are subsidising American borrowing costs, encouraging more consumer profligacy, and so allowing the current-account deficit to get even bigger. The inevitable correction will then be all the more painful.



Until recently, some argued that America's current-account deficit was sustainable because foreign investors were eager to buy American assets to take advantage of the economy's faster productivity growth and hence its higher returns. But private inward investment has slumped, leaving America dependent on foreign central banks. And foreign savings are no longer financing investment and hence future productivity gains as they were in the late 1990s. Foreigners are now financing consumption and government borrowing.

America's current-account deficit largely reflects puny domestic saving, so dollar bulls often argue that a

fall in the dollar is neither necessary nor sufficient to trim the deficit. But Stephen Roach, chief economist at Morgan Stanley, reckons that a weaker dollar would spark a rise in real bond yields, as foreign creditors demanded extra compensation for currency risk. That would slow consumer spending, boost saving and reduce the deficit.

In the three years from 1985, the dollar fell by 50% against the other main currencies. Inflation and bond yields rose and, in October 1987, the stockmarket crashed. America's current-account deficit is now almost twice as big as it was then, so the total fall in the dollar—and the fall-out in other financial markets—could well be larger. The wolf is licking his lips.

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Elections and the stockmarket

A hung market

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From The Economist print edition

Stockmarkets fear no result in the presidential election

WALL Street has traditionally greeted presidential elections with a yawn. With a few exceptions—such as Harry Truman's surprise victory in 1948, which sent the S&P 500 tumbling almost four percent in one day—America's elections generally have a scant short-term impact on financial markets. In ten out of 14 presidential elections since the second world war, the S&P 500 moved less than 1% on the day after polling.

This year might be different. A clear victory on November 2nd, whether for John Kerry or George Bush, might provide a big—if brief—boost to the stockmarket and the dollar. The reason? A winner, any winner, is better than no winner at all. And America's financial markets are uneasy that the election may yield another messy, drawn-out legal battle for president. Along with high oil prices and flagging corporate profits, the risk of electoral quagmire is dampening enthusiasm for stocks and for the dollar.

After Florida's close result in 2000, it took 36 days of legal battles before Mr Bush was declared president by the Supreme Court. The ingredients for a repeat, or worse, are all there this year. The electorate is closely divided; partisan rancour is rife; and each side has armies of lawyers to file suits at the slightest irregularity.

There are already court battles over how to deal with provisional and absentee ballots, and accusations of voter fraud and intimidation. One top Republican has told his supporters that Florida 2000 could be repeated in at least six states. Bets taken on Tradesports.com, an on-line betting firm, suggest a one-in-five chance that the presidential election will not be decided even by December 13th, six weeks after polling day.

Though Wall Street shrugged off the Florida fiasco, it may blanche at a repeat. America has never had two contested presidential elections in a row. The last contested election before 2000 was in 1876, when Rutherford B. Hayes was declared president months after election day. A second consecutive legal battle for the presidency would bring short-term uncertainty, and might erode Americans' faith in the legitimacy of their voting system at a time when America's economic fundamentals are already looking ropy.

Given all this, it is little wonder that analysts are hoping for a “relief rally” if the result is clear. Conventional wisdom on Wall Street holds that a Bush-win rally would be bigger, partly because Mr Bush has slashed dividend and capital gains tax rates, while Mr Kerry may try to raise them. History, however, suggests caution. While stockmarkets do slightly better on the day after elections when Republicans win, Democratic presidencies are generally better for stocks. So if you are convinced of a Kerry victory, buy now—and hold. Unless, of course, you think that neither president will be able to do much about America's economic problems.

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About sponsorship

Marsh & McLennan

Eliot's guy

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Marsh gets a new life with a new chief executive

AFP

Cherkasky plays Spitzer

GONE is the time when American financial-services companies wanted their bosses to be visionaries, organisers or consolidators. In the present climate of regulatory ire, better to have a lawyer at the helm. Best of all is to have a lawyer who once supervised Eliot Spitzer, New York's crusading attorney-general. Since October 25th, when it appointed Michael Cherkasky as its chief executive, Marsh & McLennan, the world's biggest insurance broker, has just such a man.

Mr Cherkasky replaces Jeffrey Greenberg, whose fate was probably sealed on October 14th, the date on which Mr Spitzer fired his broadside on the insurance industry in general and Marsh in particular, which he is suing. Mr Spitzer had growled menacingly that the firm's leadership “is not a leadership I will talk to”.

The new leadership is. After supervising Mr Spitzer more than a decade ago, when both worked at the Manhattan District Attorney's office, Mr Cherkasky moved to Kroll, a corporate-security firm that was acquired earlier this year by Marsh.

Marsh's gloomy prospects seem to have brightened perceptibly since the arrival of its new boss. On October 26th, Mr Cherkasky reported that he had had a chat with Mr Spitzer and the chances were good of a “mutually agreeable” resolution to what would certainly be civil, not criminal, charges. Marsh's shares jumped 10% on the day, and are up by a fifth since their nadir last week—though still down sharply since before Mr Spitzer's suit.

Apart from the fact that he was once Mr Spitzer's boss, there are reasons to be sceptical of Mr Cherkasky's qualifications for his new job, which is a big one. As well as running the world's largest insurance brokerage, he will also be in charge of Putnam, one of its biggest mutual-fund managers, and Mercer, a consultancy. Alas, not only does he have no experience in any of these businesses, each is deeply troubled in its own way. This is partly because of various misdeeds, but these misdeeds may have stemmed from flaws and conflicts of interest in the industries in which these units operate. Marsh seems simply to have pushed the boundaries further than most.

Mercer is in trouble because of misleading advice given to the New York Stock Exchange's board over the compensation of its former chief executive, Richard Grasso. But it is surely wrong to blame the company's woes on one assignment. The entire business of providing advice on the pay of top executives seems in reality to have been an elegant way to justify excessive compensation to the person running the company.

Mercer's pension-consulting business is also under siege for the money managers it recommended, but the notion that any firm can add much value when it comes to choosing investment managers is dubious, to say the least. Money has flowed out of Putnam after a trading scandal, but the bigger question is how a money manager with ordinary products and pricey fees could keep the money anyway. It is a problem faced by the whole industry, which charges a lot for performance that is decidedly mediocre.

None of these businesses have problems as big as those at Marsh's insurance-brokerage operation. It is accused, among other things, of rigging insurance bids and offering advice to the insured which favoured insurers who paid it lots. Such payments are, however, common, or at least they were until the brokers

said they would abandon them, after Mr Spitzer's attentions. Marsh may have been the most aggressive in the industry, says a big competitor, but that was not because Marsh was more depraved; it was simply better managed. It centralised payments and knew how to extract the most money; competitors were trying to imitate Marsh's practices.

Whatever the doubts about Mr Cherkasky's long-term suitability as a replacement, his background has brought immediate benefits. Mr Spitzer says that he trusts Mr Cherkasky. And at a press conference he fielded questions with aplomb. Price fixing, he said, was limited; a few employees have been suspended, and one fired; controversial billing practices would be banned; a full report would be completed in a month and handed to Mr Spitzer. Marsh, Mr Cherkasky asserted, had “fervently believed” it had done nothing wrong but the rules had changed and so Marsh must change—as would every other company in the insurance industry. Ordinarily, such statements would bring a Spitzer retort. This time he said nothing.

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Pension accounting

Murk in the gloom

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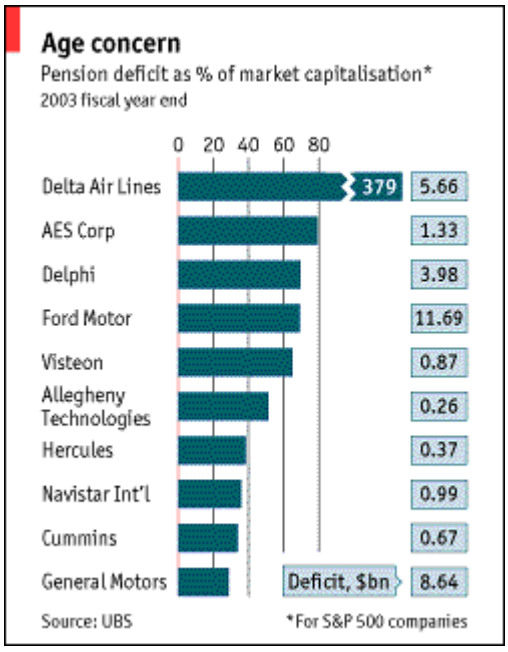
An SEC investigation will shine much-needed light on the sorry state of accounting for retiree benefits

WHEN you think of General Motors (GM) or Ford, you think of cars. But these days when the Securities and Exchange Commission (SEC) considers these companies, it is looking at pensions—and the sundry esoteric assumptions that go into accounting for them. In late October, it emerged that the SEC was investigating how GM, Ford and four other firms (Delphi, Northwest, Navistar and Boeing) account for their retiree benefits. None has been accused of wrongdoing; but the SEC's interest was piqued by the companies' enormous pension deficits (Ford's alone was $3.5 billion in 2003), by the sensitivity of company profits to swings in the value of these liabilities and by, in the words of one official, "the potential for mischief".



This potential exists because companies have great flexibility in measuring the size of pension obligations and assets, and hence the pension deficits or surpluses that feed into profits. Some of this leeway is unavoidable. A company's retiree obligations are promises that have to be delivered in the future; measuring the size of these obligations involves tricky and subjective judgments, such as how long employees will work, when they will die, and how much health care they will need.

But pension accounting takes this inherent fuzziness and makes it unnecessarily fuzzier. It does this by letting companies "smooth" the swings in the value of pension assets (which move around with financial markets) and liabilities (which move mainly with interest rates). This smoothing distorts the true health of companies' balance sheets and their profits.

The distortions can be huge, particularly for companies where pension deficits or surpluses are large compared with their size (see chart), because the volatility of financial markets will have a bigger relative impact on the profits of such companies. Shareholders in firms with relatively large pension deficits should pay especial attention to these distortions, because the claims of pension-holders are superior to those of shareholders, and pension deficits can trigger accelerated pension-fund contributions that will come out of profits.

Smooth operators

Perhaps the most egregious way in which companies smooth profits is by valuing pension assets using expected rather than actual returns. They are allowed to do this because the assets are invested to meet pension promises in the distant future, so they can dismiss short-term swings. But whether because they are inherently optimistic, or because they wish to hide the true state of their pension plans, companies generally expect unrealistically high returns. This reduces their obligations to the pension fund and thus inflates their own profits.

Regulators have pressured companies to lower these estimates for years, with only limited success. According to Morgan Stanley, the expected average annual return used by firms in the S&P 500 index fell from 9.5% in 2001 to 8.6% in 2003 . But even these lower assumptions seem extraordinarily optimistic.

And UBS reckons that about $2 of such companies' earnings per share of some $55 in 2003 was still due to aggressive pension-return assumptions.

Morgan Stanley reckons that for funds to make their 8.6% target, their equity returns would need to exceed 11% a year over the long term because almost half of these firms' pension assets are invested in lower-yielding bonds. Such consistently high performance is unlikely given that rich-country stockmarkets are so generously valued. “Allowing companies to use expected returns was never smart—but doing so is peculiarly irrational and dangerous at the moment,” says Andrew Smithers of Smithers & Co, a consultancy.

What worries the SEC and many investors is that using assumed returns, particular high ones, is at best incredibly misleading and at worst gives firms the flexibility to manipulate earnings. A recent study by Mihir Desai and Daniel Bergstresser of Harvard Business School, and Joshua Rauh of the University of Chicago, finds evidence of just such tinkering. Their analysis of 3,247 company pension plans from 1991-2002 found that firms tended to boost pension-return assumptions the year before buying a company, or before their chief executive exercised his stock options.

Others fret, more fundamentally, that this flexibility can skew how companies allocate pension assets. For the more they put their pension money into riskier assets such as equities, the higher the returns they can assume for the purposes of generating today's profits.

Another assumption that has caught the SEC's eye is the discount rates used by companies to value pension liabilities. The higher the rate, the lower the present value of pension obligations and the lower the pension expense. The SEC has issued guidance that high-quality corporate bond yields are a good starting point for setting this rate. But only a starting point.

In particular, adjustments should be made for a company's circumstances. For example, a firm with many retirees and a rapidly ageing workforce should use a lower discount rate than, say, its upstart competitor with a young workforce, because the older firm will have to pay its benefits sooner. But the discount rates used by companies cluster tightly around the 6-6.5% range.

Given the huge leeway companies have in setting expected returns and discount rates, and the complexity of the task, it is, perhaps, little wonder that actual pension deficits or surpluses are bigger or smaller than the companies had thought they might be. But rather than reflect this immediately, pension accounting rules again allow companies to manipulate these figures still further by putting them onto the income statement (profit-and-loss account in Britain) over many years.

This leads to results that are, to put it mildly, counterintuitive. For example, even though pension plans of S&P 500 companies did well last year, with returns of 20%, their net pension expenses leapt to $27.5 billion, 11.5 times more than the previous year. Why? Because the $321 billion in “unrecognised” pension losses that were sitting off their balance sheets—thanks to the dismal stockmarket performance of previous years—only started seeping onto income statements in 2003.

Just as strangely, these delays in bringing losses and gains onto corporate balance sheets can produce what has been dubbed “false income”—ie, an addition to the company's profits even while its pension fund remains deeply in deficit. True, the number of firms that are claiming such false income is declining: last year, only 25 of the S&P 500 companies with pension plans reported this phantom profit, compared with 60 the previous year. But the list includes big names, such as IBM, Lucent and Dow Chemical. And the extraordinary thing is that it happens at all.

“Pension accounting is broken,” says David Bianco of UBS. Like many others, he argues that assets and obligations should be shown at market value immediately—rather than delayed and smoothed. Critics of such a transparent approach argue that the necessary information exists in the footnotes to financial statements, particularly since last December, when the American standard-setter boosted disclosure requirements for pensions. Moreover, they say, thrusting volatile market values on financial statements will confuse investors.

But what is the point of financial statements if they are not meant to reflect economic reality? Volatility in pension assets is real—even if it is not reported. And, despite the rosy assumptions of actuaries, stockmarkets can fall a long way and for a long time before they recover. The Japanese stockmarket is still only a quarter or so of the level it reached 14 years ago.

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America's debt-collection industry

The Indians are coming

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As consumer debt grows, so does the debt-collection business

The downside of debt

FOR an answer to why the fuss about "outsourcing" jobs from America to India has died recently, look no further than Amherst in upstate New York. There, a debt collector called Account Solutions Group (ASG) sold itself earlier this month to ICICI OneSource, an outsourcing firm from Mumbai in India. ICICI OneSource specialises in performing customer-service and other back-office work for multinational firms, especially financial ones, by Indian firms. As part of the deal, ICICI OneSource will keep on all of ASG's 500 workers in Amherst. In fact, says Tony Frisicaro, ASG's old boss and ICICI OneSource's new head of collections, the firm plans to hire an extra 60-100 debt collectors in America by the end of this year.

The arrival of Indians in Amherst is part of several big changes sweeping through America's sleepy consumer debt-collection industry. Traditionally, the business has gone to tiny local agencies, which earn a cut (about 25%) of the debts they recoup for their customers—banks, hospitals, utilities and other creditors. As American households have run up ever-larger debts, and as banks and other lenders have given up collecting their own debts because stricter federal and state regulations have made the business more costly, the collection industry's annual revenues have more than tripled in the past ten years, to $16.5 billion. Business is increasingly going to a handful of emerging industry giants, such as the publicly owned NCO Group which, after scooping up more than 20 smaller rivals, now employs 22,000.

With this consolidation have come two other big changes. First, the debt-collection business has begun to merge with the bigger customer-service call-centre industry. Earlier this year, Convergys, the world's biggest call-centre operator, spent $68m to buy Encore Receivable Management, a Kansas-based debt collector. Meanwhile, Vertex, a British call-centre firm owned by United Utilities, bought an American debt collector called First Revenue Assurance. Call-centre firms want to add debt collection to the other services they perform for their customers because they use similar information technology.

The second big change is that, just as in the call-centre industry, some of the business has begun moving offshore: NCO employs about 500 debt collectors in India. This is because the industry's customers, especially banks, want to squeeze costs. But it is also because the collection agencies spot new profit-making opportunities. Debts of $500 or less are too costly to collect using American workers; ICICI OneSource thinks it can be done profitably from India. Small debts have proliferated with the explosion in "sub-prime" lending to less creditworthy Americans, and with the growth of new sorts of lenders, such as petrol-station chains and utilities. Michael Ginsberg, of Kaulkin Ginsberg, a consulting firm which advised ASG on its sale, thinks that a third of the industry's future growth could take place in India, Canada, Mexico and the Caribbean.

Thanks to Americans' seemingly bottomless appetite for more debt, Mr Ginsberg still predicts employment growth in the debt-collection industry at home—if the agencies can attract new workers. As it happens, few Americans seem to enjoy hassling their compatriots to pay credit-card debts or hospital bills they cannot afford. (One American hospital recently hired a debt-collection agency to wring payment from a man it treated for a gun-shot wound from a failed suicide attempt.) A staggering three-quarters of the debt-collection industry's new hires quit after just three months. America's call-centre business—another industry in which hysteria about outsourced jobs has run high—faces the same dilemma. "It's very hard to hire in the US," says Mr Ginsberg. In Amherst, an Indian firm plans to do its best.

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India's stockmarket

Against the odds

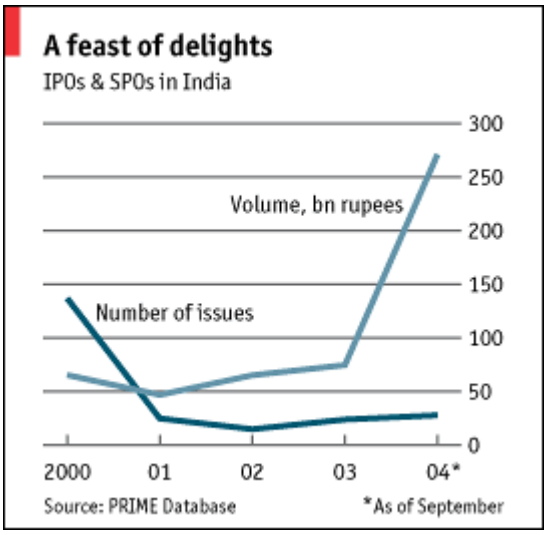
Oct 28th 2004 | MUMBAI
From The Economist print edition

The market shrugs off some bad news

Get article background

ONE might have expected investors in the Indian stockmarket to be worried. Pushed by the high price of oil, inflation has been rising. On October 26th, the central bank, the Reserve Bank, responded by edging up its "repo" rate by 0.25 percentage points, the first such increase for four years. The Reserve Bank has also cut its GDP-growth forecast for this year by 0.5 percentage points, to 6-6.5%. The government, led by the Congress Party, is a further concern. It relies on the parliamentary support of Communist allies, not known for their market-friendly policies.

Indeed, when it took power in May, there were a few days of market mayhem. Yet since then, the index has recovered most of its losses, and is almost back to its levels at the end of last year when, after an exceptionally good summer monsoon, the economy was booming and India was said to be "shining". Encouraged by a 25% rise in the market since May, firms are queuing up to raise money on it (see chart).



Prithvi Haldea, of Prime Database, a financial-research firm, estimates that, of the money going into the stockmarket, about a quarter comes from small investors, a quarter from Indian firms and rich individuals, and half from foreign and local institutions.

Many retail investors were put off the market by the last new-issue boom, in 1994-6. Many of the issues were duds, frauds, or both. This time, quality is not the problem. A relatively small number of India's biggest and best-known public and private companies have come to market to sell minority stakes. In recent weeks they have included offerings worth more than $1 billion from both Tata Consultancy Services, the country's largest information-technology services firm, and National Thermal Power, a government-owned electricity generator.

Prime Database lists more than 80 firms in its pipeline of pending issues, waiting to raise more than 400 billion rupees ($9 billion). Despite the Communists' qualms about privatisation, the government will continue to sell shares in the firms it controls—especially banks, many of which are compelled by new capital-adequacy rules to raise money. But much the chunkiest offering in the list, accounting for maybe a quarter of the total amount, is for the telecommunications arm of Reliance, India's largest private firm.

If the supply of new issues seems assured, brokers also expect demand to rise. After the upsets of the mid-1990s, a very small proportion (perhaps 1.5%) of household wealth is in the stockmarket, and there are only 6m retail investors. Pension reform is likely to release more money for investment. Banks, which at present typically keep 35-40% of their assets in government bonds, have been losing money on their portfolios as yields have risen, and may put more into equities.

Foreign institutions are paying more attention. Pashupati Advani, a Mumbai stockbroker, expects foreign interest to increase in the next couple of years as Taiwan and South Korea graduate from emerging-market indices, giving India a greater weight.

The stockmarket, says Mr Haldea, is still "very small and shallow" given India's size. That is a reason for

optimism. But, as in those panicky days in May, on one of which the index plummeted 17%, it also makes it vulnerable to sudden shocks and swings of sentiment. India is flavour of the month for some; but tastes change.

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Economics focus

How to save the world

Oct 28th 2004
From The Economist print edition

Jeffrey Sachs has some good ideas, but also some iffy ones

WHEN you are asking for $75 billion a year, you need a good reason. Jeffrey Sachs has one. He thinks that if aid to poor countries were increased by this sum—ie, more than doubled—and kept at that level until 2015, extreme poverty could be halved. Next year, in his capacity as head of the United Nations "Millennium Project", which aims to achieve this goal, he will present to the G8 countries a detailed plan for how the money should be spent, in the hope of persuading donor nations to cough it up. Can Mr Sachs really persuade western leaders suddenly to shower cash on people who can not vote for them?

The answer will depend in part on whether they are convinced that the money would be well spent. On this point, he will be met with scepticism. Development aid has failed, in the past, to stimulate much development. Lavishly aided countries have grown no faster than those that have been neglected. This is one reason why rich countries refuse to give much. Though most have promised to donate 0.7% of gross national income, the average for the richest 22 countries is 0.25%.

Mr Sachs admits that foreign aid has not achieved much in the past. But he argues that this is because there has not been enough of it, and it has been "very poorly targeted". Those who despair of helping the poorest, he contends, are like people who send a single fireman to fight a forest fire and, when he fails, say: "Why should we send more firemen? We have already seen that they are ineffective."

He has a point. A lot of aid has been wasted propping up economically illiterate kleptocrats such as Mobutu Sese Seko of Zaire. David Dollar and Lant Pritchett, among others, have dug up solid evidence that aid, when directed towards poor countries with sound economic policies and competent institutions, tends to accelerate growth and lift people out of poverty.

The corruption of poverty

Mr Sachs goes further than this. In a study published earlier this year*, he looks at tropical sub-Saharan Africa, where poverty seems most intractable, and challenges the popular idea that this is mostly down to poor governance. He cites other obstacles to Africa's growth, such as its extraordinary disease burden (it is hard to work when you are woozy with malaria), the lack of deep ports and navigable rivers, the infertility of much of its soil and the colonial legacy of borders that slice the continent into lots of tiny nations with negligible markets and too little sense of nationhood to remain stable.

Mr Sachs argues that these natural disadvantages make it impossible for Africans to save enough to make the necessary investments to kick-start growth. His solution is more aid. The extra cash would be used in a variety of cost-effective ways: more bed-nets to fight malaria, better roads to help peasants get their crops to market, more diesel generators to electrify villages, and better schools among other things. The theory is sound: there are indeed cheap, proven remedies for many of the ills that plague Africa. But will the money actually be spent on these remedies? Mr Sachs envisages funnelling most of it through national governments, who would have to train many more teachers, engineers, nurses and other professionals, and then persuade the best of them not to emigrate to rich countries.

But is it not likely that corrupt elites will snaffle the bulk of the extra money, either directly or by awarding contracts to their cronies? Mr Sachs thinks such wastage can be minimised through tough conditions, and by cutting off aid to countries that misuse it too flagrantly. His optimism is informed by an original and controversial analysis of the relationship between good governance and development.

The conventional wisdom is that corruption keeps poor countries poor. Mr Sachs argues that it is the other way round: that “good governance itself requires real resources”. Bureaucrats steal because their wages are too low, and they can do so with impunity because the public accounts have not yet been computerised. If you control for income levels, he shows that Africa is no worse governed than elsewhere.

This is clever, but controlling for poverty yields some very odd results. For example, Mr Sachs finds himself rating the quality of governance in the Central African Republic (a war-torn gangster state) as “average”. Ditto Nigeria, an assessment virtually no Nigerian would agree with. Nigeria's anti-corruption tsar, Nuhu Ribadu, argues that “corruption has nothing to do with being underpaid.” Rather, he says, it is a widespread crime because of a failure of leadership under previous regimes.

Mr Sachs's grand plan depends on there being plenty of governments in poor countries that are clean and competent enough to be entrusted with a sudden infusion of free money. By his assessment, there are. In Africa, he cites a dozen, including Senegal, Mozambique, Ghana and Zambia. It is not a bad list, but it would be hard to make it longer. And all the nations on it have significant problems with corruption, which could be aggravated by a sudden deluge of cash. If there is more to embezzle, more crooks may be tempted to enter government. Extra cash might also reduce the incentive to enact painful but necessary reforms, such as privatising state-owned firms.

Mr Sachs says he wants to “scale up” aid to “all the countries that are ready”. At the same time, he argues that donors could test his ideas by quintupling aid to Ethiopia, which has lots of poor people and a fairly pragmatic government. If the Ethiopian government uses the money to go back to war with Eritrea, as it did in the late 1990s, the programme should be stopped, he says. But if it works, it should be copied swiftly and widely. “If” looms large in his argument.

“Ending Africa's Poverty Trap”, Sachs et al, Brookings Institution.

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Human evolution

Meet cousin Florence

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From The Economist print edition

A new and diminutive species of human being has been discovered

IN THE 1890s, Eugene Dubois, an anatomist working as a doctor in the Dutch army, stunned the scientific world when he found the first fossil human remains outside Europe. Java Man—*Homo erectus*, as it is now known—threw ideas about human evolution into chaos by suggesting that Europe was not, as most anthropologists had hitherto assumed, the cradle of human evolution.

As it turned out, neither was Asia. The evidence now shows that all the important developments in human evolutionary history, from the appearance of *Australopithecus* (the first species generally regarded as human) to the emergence of *Homo sapiens* (you and me), happened in Africa. But Asia can still spring the odd surprise in the field. And few finds have been as surprising as that made last year on Java's Indonesian neighbour, Flores, and announced this week in *Nature*. For *Homo floresiensis*, as the new species has been dubbed, suggests that the ascent of man is not an evolutionary inevitability. Descent is also possible. That is because *Homo floresiensis* (whose skull is pictured above, alongside that of a modern human) was but a metre tall, and had a brain not much bigger than an ape's.

In a truly ancient fossil human from, say, 3m-4m years ago, those dimensions would not be surprising. But the skeleton found by Peter Brown, of the University of New England, in Armidale, Australia, and his colleagues from the Indonesian Centre for Archaeology in Jakarta, is a mere 18,000 years old. That means it was alive at a time when *Homo sapiens* had not only come into existence, but had already reached Australia.

A little puzzle

The species is not, however, a descendant of *Homo sapiens*. A tooth from a lower soil layer in the cave where the main skeleton was found shows it evolved before modern humans arrived in the area. It was thus one of several species of humanity, such as Neanderthal Man, that were pushed aside by the rise of *Homo sapiens*.

That, in turn, suggests it was descended from Dubois's *Homo erectus*. But *Homo erectus* was as big as *Homo sapiens*—in some cases bigger. And if *erectus* was not in quite the same intellectual league as modern man, it was certainly no dunce. Its brain could be as big as 1,250cm^3 (compared with 1,400cm^3 for a modern human). That of *Homo floresiensis*, by contrast, was a mere 380cm^3. Dr Brown knows this because he measured the volume by the delightfully low-tech technique of pouring mustard seeds into the fossil's cranium after he had cleaned the interior.

Nor is there any doubt that the skeleton is that of an adult (probably, from the pelvic anatomy, a woman). Her teeth are worn, and some telltale bones in the skull are knitted together in an adult way. On top of that, although they are not described in the paper, Dr Brown's team has now found five more specimens which confirm that she was not an abnormally small member of her species.

Of course, a small animal will have a small brain. But what is noticeable about *Homo floresiensis* is how small the brain is, even in comparison to the diminutive body. The species had regressed, more or less, to the brain/body ratio found in *Australopithecus*. The question is why. And the answer to that question may shed light on the wider question of how human intelligence arose in the first place.

Islands are famous for generating indigenous species from whatever biological material pitches up on them. One frequent trend observed in such island species, at least when they are large mammals, is dwarfism. Elephants seem particularly susceptible. The last mammoths, which lived on an island off the coast of Siberia, were, paradoxically, dwarfs. Similar elephantine examples are known from Malta, Sicily and, indeed, Flores itself. And the same thing has been observed in cattle, too. There seems no reason why it should not happen to hominids.

Two evolutionary pressures are thought to drive this process of diminution. One is that islands are often free of large predators (on Flores, the largest were Komodo dragons, a species of large lizard). The other is that they sometimes have a restricted food supply. The result is that you do not need to be big to defend yourself; and if you *are* big, you may starve.

Both of those facts might drive the evolution of smaller brains, too. Brains are expensive in terms of energy consumed, and thus food needed. And an absence of predators would remove at least one reason to have a large brain. In other words, use it or lose it.

Why human intelligence evolved in the first place, though, is controversial. Many researchers feel that it was not so much to deal with the non-human world (eg, predators and food-gathering) as to deal with other people. One theory, known as the “Machiavellian mind”, is that intelligence is there to analyse, and thus manipulate, the motives of others. Another, known as the “mating mind”, is that much of human intelligence is about showing off to the opposite sex, in a behavioural equivalent of the peacock's tail. Both could be true. Whether either of these purposes would disappear on an island is moot.

All this is speculation, of course. And human fossils are so rare that there is a risk of over-interpreting each new find. What would help is evidence of *Homo floresiensis*'s culture, if any.

One possible remnant of that culture is the numerous stone tools in the cave where the skeleton was found. These are small and delicate, which suggests they might have been made and wielded by tiny hands. Nor do they bear much resemblance to the tools of *Homo erectus*. But they do date from a period when the island could have been inhabited by *Homo sapiens*. So who made them is unclear. In any case, tool-making is not an exclusive badge of intellectual advancement. *Australopithecus* used stone tools, and modern chimpanzees make and use tools, too (though admittedly not stone ones). If tools were useful to *Homo floresiensis* on its island home, natural selection would have retained the ability to make and use them even if other mental faculties dwindled.

Regardless of how these questions are settled, what is clear is that Dr Brown's find has changed thinking about the way humanity has evolved. If *Homo floresiensis* was flourishing 18,000 years ago, the chances are it did not die out until much more recently. Indeed, it is conceivable that it lasted into historical times. Much of *Homo sapiens*'s vision of itself is built around the idea of human uniqueness. That it was not unique until so recently should give pause for thought—and will no doubt spur others to follow Dubois's lead and look for further species of fossil human in previously unexplored places.

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Printer forensics

Band aid

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From The Economist print edition

How to beat digital forgers

Corbis

A paper trail

NO DOCUMENT is safe any more. Counterfeiting, once the domain of skilled crooks who used expensive engraving and printing equipment, has gone mainstream since the price of desktop-publishing systems has dropped. Virtually any kind of paper can be forged, including cheques, banknotes, stock and bond certificates, passports and security cards. For currency alone, millions of dollars in counterfeit banknotes make their way into circulation each year, and 40% of the counterfeits seized this year were digitally produced, compared with 1% a decade ago.

In ancient times, counterfeiting was a hanging offence. In Dante's “Inferno”, forgers were placed in one of the lowest circles of hell. Today, desktop counterfeiters have little reason to worry about prison, at any rate, because the systems they use are ubiquitous and there is no means of tracing forged documents to the machine that produced them. This, however, may soon change thanks to technology developed by George Chiu, Jan Allebach and Edward Delp, three anti-counterfeiting engineers based at Purdue University in Indiana. The results of their research will be unveiled formally on November 5th at the International Conference on Digital Printing Technologies in Salt Lake City.

Though the approaches of the three researchers differ slightly, all are based on detecting imperfections in the print quality of documents. Old-school forensic scientists were—at least so the movies would have you believe—able to trace documents to particular typewriters based on quirks of the individual keys. The researchers from Purdue employ a similar approach, exploiting the fact that the rotating drums and mirrors inside a printer are imperfect pieces of engineering which leave unique patterns of banding in their products.

Although these patterns are invisible to the naked eye, they can be detected and analysed by computer programs, and it is these that the three researchers have spent the past year devising. So far, they cannot trace individual printers, but they can tell pretty reliably which make and model of printer was used to create a document.

That, however, is only the beginning. While it remains to be seen whether it will be possible to trace a counterfeit document back to its guilty creator on the basis of manufacturing imperfections, Dr Chiu is now working out ways to make those imperfections deliberate. He wants to modify the printing process so that unique, invisible signatures can be incorporated into each machine produced. That would make any document traceable.

Ironically, it was after years of collaborating with printing companies to reduce banding and thus increase the quality of prints, that he came up with the idea of introducing artificial bandings that could encode identification information, such as a printer's serial number and the date of printing, into a document. Many factors can affect banding patterns. These include the intensity, timing and width of the pulses of laser light that control the printing process, and the efficiency of the motor controls that steer the laser beam, turn the drum and move the mirrors. All of these could be exploited to produce unique signatures, but Dr Chiu found that the one which works best without compromising print quality is to fiddle with the intensity of the laser. Using a computer model of the human visual system, he has designed a method of banding that is invisible to the eye while remaining all too visible to an expert with the right machine.

The current techniques used to secure documents are either digital (and therefore easy to fake with desktop publishing systems) or too costly for widespread applications (paper watermarks, fibres and special inks). Using the banding patterns of printers to secure documents would be both cheap to implement and hard, if not impossible, for those without specialist knowledge and hardware to evade.

Not surprisingly, the American Secret Service is monitoring the progress of this research very closely, and is providing guidelines to help the researchers to travel in what the service thinks is the right direction. Which is fine for catching criminals. But how the legitimate users of printers will react to Big Brother being able to track any document back to its source remains to be seen.

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Brain scanning

No hiding place

Oct 28th 2004 | SAN DIEGO
From The Economist print edition

Studies using functional brain-imaging take on sophisticated topics

FEW recent innovations have transformed a field of research as much as functional magnetic-resonance imaging (fMRI). The technique has revolutionised the study of the human brain. By making visible the invisible (the activity of different bits of the living brain on a second-by-second basis), it has revolutionised the study of that organ. But what started out as a medical instrument is now used routinely to probe complex questions about behaviour and motivation. That was the lesson of two studies presented to a meeting of the Society for Neuroscience, held in San Diego earlier this week.

In one of the studies, Jonathan Cohen, of Princeton University, and his colleagues tried to explain an anomaly that has been nagging economists for decades. If humans were fully rational (at least, rational in the way that economists define the word), they would attach the same monetary value to a week's delay in receiving a payment, regardless of when that week began. So, if someone is offered $10 at the beginning of any given week, or $11 at the end of it, he should make the same choice, whether that week starts now or a year from now. But that turns out not to be how most people judge it. In most cases, they will take the $10 today but the $11 in a year and a week.

Dr Cohen reasoned that this inconsistency might reflect the influence of different neural systems in the brain. To test this, he recruited 14 students, the traditional workhorses in such studies. While lying in his brain scanner, the students were offered the choice of receiving an Amazon.com gift certificate worth somewhere between $5 and $40 immediately, or getting one worth 1% to 50% more in a couple of weeks' time.

When a participant chose the earlier reward, there was an increase in the activity of his limbic system. This is a region of the brain that is involved in emotion. In contrast, when the choice was to delay gratification in exchange for a bigger reward, brain activity was concentrated in the “thinking” regions, such as the prefrontal cortex. The inconsistency therefore seems to be the result of different sorts of calculation happening in the two cases.

Of course, that does not answer the ultimate question of why evolution has equipped the brain this way. Dr Cohen speculates that it may have something to do with survival when the arrival of resources is scarce and unpredictable, rather than the subject of contracts and an efficient banking system. But it does shine a new light on issues such as drug addiction and procrastination, which are both situations where the temptation of immediate reward can lead to choices that might ultimately be detrimental.

While Dr Cohen's group wrestles with how people make choices, Klaus Mathiak, of the University of Tübingen, in Germany, and his colleagues, are using fMRI to study the effects which certain sorts of choice have on brain activity. Specifically, the team is looking at what goes on in the heads of dedicated video-games players during violent “social interactions” within a game.

Dr Mathiak enlisted 13 gamers who played video games for, on average, 20 hours a week. While the gamers stalked and shot the enemy from the relative discomfort of a scanner's interior, the researchers recorded events in their brains.

As a player approached a violent encounter, part of his brain called the anterior cingulate cortex became active. This area is associated with aggression in less fictional scenarios, and also with the subsequent suppression of more positive emotions, such as empathy. Dr Mathiak noted that the responses in his gamers were thus strikingly similar to the neural correlates of real aggression. As he puts it, “Contrary to what the industry says, it appears to be more than just a game.”

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Sensory perception

Sounds like a picture

Oct 28th 2004 | SAN DIEGO
From The Economist print edition

Translating images into noise allows people to see with their ears

GIVING sight to the blind is a goal of miracle workers and scientists alike. Now, a group of researchers led by Petra Stoerig of the University of Dusseldorf, in Germany, has reported that people can learn to "see" using a system that converts images into sound.

The system, which Dr Stoerig presented at the Society for Neuroscience meeting in San Diego, consists of a camera mounted in the bridge of a pair of glasses and connected to a computer. This converts the image into sound and feeds it to a pair of headphones. The result is like a film in which each frame is a sonic "image" lasting two seconds.

These images have three elements. Sounds early in an image represent the left-hand side of the scene, while those late in it represent the right. The pitch of the sound represents up and down, with items at the top of the scene being high pitched and those at the bottom low-pitched. The brightness of an object in the scene is represented by volume, black space being silent while white screams out loud.

It may sound implausible, but it works. Admittedly, Dr Stoerig's volunteers did not include any blind people. Nevertheless half were blindfolded during the trials and so learned how the system worked only by feeling what they were hearing.

At the start of the experiment itself, when everyone was blindfolded, all of the subjects could decipher simple geometric shapes, identifying them accurately 25-45% of the time. By the end, some could do almost as well with complex objects such as gloves, chairs, bananas and trees.

In one case, the researchers asked the volunteer to draw what she heard. On day one she said it was a "cacophony". On day eight she thought it was a natural object but did not know what. By day 15, she "saw" that it was a broad-leafed pot plant and drew the pot and leaves. By day 21 she clearly saw a plant and could discern that she was looking at it from the top down. Furthermore, when they replaced the pot plant with a daffodil, she recognised the difference.

How much help all this might really be to the blind remains to be seen. One obvious drawback is that it pre-empts a person's hearing. But in that it provides a new way of perceiving the world, it may yet form the basis of a useful new tool.

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The changed nature of work

Pushing a different sort of button

Oct 28th 2004
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Corbis

How jobs, in the rich world, have become less boring (though there's still plenty to whinge about)

WORK, says a guru quoted in one of these books, is our “negotiation with death”. That's putting it a bit strong, but work is clearly something that lots of people love to hate. Yet, in the rich world, work has changed dramatically in the past two or three decades, in ways that have got rid of some of its more disagreeable sides, and made what is left more interesting.

The key changes have been the fading of routine manual work and the rise of jobs that make use of networked computers. Many of the more tedious jobs that most people did a century ago—factory work, farm labouring, mining—are almost gone. Robots, not human beings, now mainly man the production line, which symbolised the more oppressive aspects of the machine age.

Instead, as Frank Levy and Richard Murnane point out, jobs have bifurcated: there has been some growth in the simpler service jobs—flipping hamburgers and cleaning offices, say—but a much greater growth of sophisticated work in management, teaching, medicine, engineering and the law. Many of the jobs that have gone were routine clerical tasks, which have been either taken over by computers or outsourced abroad—or both. The networked computer allows such tasks to be structured in a way so they can be done by folk far away from the final customer.

The jobs that remain, say the two economists, are often ones that require complex communication, conveying an interpretation of information rather than just the facts, and making difficult judgments in unpredictable circumstances. Computers, which can cope with simple rule-based jobs, find it far harder to diagnose a sick patient or design a new aircraft. But, by taking over the simple part of many jobs, they improve the productivity of skilled human beings doing complicated things.

The New Division of Labor: How Computers Are Creating the Next Job Market
By Frank Levy and Richard J. Murnane

Princeton University Press; 200 pages; $24.95 and £15.95

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Amazon.co.uk

The Future of Work: How the New Order of Business Will Shape Your Organization, Your Management Style,

Countries must therefore educate their citizens in ways that fit them for such complexities. The trend in pay points the same way: in 1979, a 30-year-old man with a bachelor's degree averaged 17% more than one with a high-school diploma; today, the gap is 50%.

Networked communications are changing the organisations that people work in too. Thomas Malone, an organisational theorist, describes the way that they allow "dramatically more decentralised ways of organising work [to] become at once possible and desirable". He is impressed by the way Nike outsources all its manufacturing to other companies; and by the example of eBay, from whose auctions perhaps 150,000 people make a living. Both are instances of the new sort of shapes that organisational life may take. He also argues for the emergence of internal markets and of "democracies"—in which decisions are based on the collective wisdom of the many rather than the top-down instructions of a few.

Companies where employees are given more control over their working conditions seem to generate better returns than those that give their people less responsibility. One of the great benefits of information technology in the workplace, says Mr Malone, is to allow workers to make more choices. That in turn will call for different managerial techniques: not so much command-and-control as "co-ordinate-and-cultivate". Managers must learn to run loose hierarchies in which much of the decision-making power is pushed down the organisation. If they set clear standards and guidelines, then teams of people can undertake a task without centralised control.

Complex communications and loose hierarchies sound much more fun than life on the traditional production line. Russell Muirhead, searching for a new ethic of work, often seems to assume that work is inherently disagreeable and tedious. He wants it to be fulfilling—but not too fulfilling, lest it take over people's lives and squeeze out other interests. He concludes that "the dignity of work comes from the way we show, through it, a determination to endure what is difficult for the sake of discharging our responsibilities and contributing to society." But that surely is too bleak a view. People work for money, for company and for some sense of achievement.

Indeed, even in a badly run organisation, work can have a certain melancholy pleasure. Take the blistering portrait of life in a big British retail bank (NatWest, now part of the Royal Bank of Scotland, pseudonymously appearing as British Armstrong) by John Weeks, an American professor of organisational behaviour. He found that the bank's staff always described its corporate culture negatively. It was said to be too bureaucratic, too rules-driven, too introverted, too centralised.

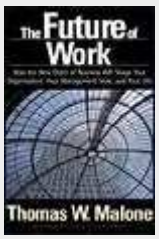
He describes various ways used to grouse without appearing too obvious, such as "deniable deprecations", used to complain about everything from the coffee to career advancement. But the moaning was a ritual. Complaining brought no gains, but, if done in a socially acceptable way, created cohesion among groups of staff. In that respect, networked computers have changed nothing—apart from giving badly managed workers something new to whinge about.

The New Division of Labor: How Computers Are Creating the Next Job Market.
By Frank Levy and Richard J. Murnane.
Princeton University Press; 200 pages; $24.95 and £15.95

The Future of Work: How the New Order of Business Will Shape Your Organization, Your Management Style, and Your Life.
By Thomas W. Malone.
Harvard Business School Press; 304 pages; $29.95 and £18.99

Just Work.
By Russell Muirhead.
Harvard University Press; 224 pages; $24.95 and £16.95

and Your Life
By Thomas W. Malone



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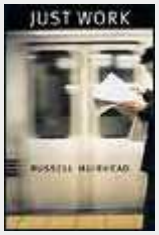

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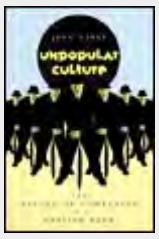
Unpopular Culture: The Ritual of Complaint in a British Bank
By John Weeks



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Alfred Stieglitz

His eye was in him

Oct 28th 2004
From The Economist print edition

The photographer who brought European art to New York

ALFRED STIEGLITZ (1864-1946) introduced Picasso, Braque, Matisse, Cézanne, Rodin and Brancusi to the New York art world at the beginning of the 20th century. And that was just a hobby. His true calling was photography and he sought to prove that the camera could be as much a medium of art as the canvas. A new exhibition has just opened in Paris that showcases this remarkable photographer, gallerist and publisher, and reassembles his famous images alongside iconic works from his exhibitions and art magazines.

According to curator Françoise Heilbrun, this exhibition is the first in Europe to show Stieglitz not only as a pioneer of photography but as a champion of avant-garde artists and ideas in America. While the European artists he promoted are now household names, most of the American artists he showed, such as Marsden Hartley, Charles Demuth and Arthur Dove, have never before been seen in Europe.

Born in New Jersey to a wealthy family of German-Jewish immigrants, Stieglitz spent a privileged youth surrounded by art and artists, making frequent trips to Europe. In the 1890s he became celebrated as a pictorialist photographer, producing aesthetic images whose tonal subtleties were influenced by Whistler and Japanese art.

Then, in the first two decades of the 20th century, he underwent a conversion, embracing the modern world around him with fervour. He shifted to what he called “straight photography” based on immediate images of the metropolis growing up around him. In his famous photograph “The Steerage”, Stieglitz fills his lens with the teeming mass of immigrants before him, an image broken only by the illuminated gangway that seems to offer a path to a better world in America.

Stieglitz himself never travelled steerage on his annual trips back to Europe, where, in Paris in 1905, he saw art by Matisse and Picasso, among others, that made him feel as though he were discovering a new world. He wanted to wake the American public up to what he saw as a “new truth” in art. Back in New York, he opened the Little Galleries of the Photo-Secession (in homage to European secessionist movements) at 291 Fifth Avenue.

The 291 gallery, as it came to be called, was founded more as a laboratory of art and ideas than a commercial concern. Stieglitz financed it from his own pocket and that of his wife, the heiress to a brewing fortune, with some backing from fellow enthusiasts. To see its reconstruction in the exhibition, it is hard to believe that such an unassuming space could change the world of art. But it did.

When Stieglitz staged his first show in 1905, there was no art market in New York. At first he showed his own photography and that of his circle of friends, such as Edward Steichen. But in 1908, he presented nude drawings by Rodin, followed over the next few years by shows of Cézanne, African art, the sculpture and drawings of Matisse, the cubism of Picasso and Braque, and a sell-out show of Brancusi sculptures.

In 1913, a groundbreaking show at the Armory, which brought hundreds of works by modern European artists to New York for the first time, changed Stieglitz's world forever. On the one hand, it created a much larger audience for modern art and even led to a change in American customs laws making contemporary art easier to import. But it also meant that 291 was no longer the only game in town.

For Stieglitz, the Armory show marked an end rather than a beginning. He turned his back on European art, preferring to promote young American artists whom he believed had been overlooked. The most famous of these was Georgia O'Keeffe. Attracted by the sexual power he saw in her work as much as by

her independent spirit, he found in this young artist, more than 20 years his junior, his ideal woman, and in 1917 he left his wife for her.

The Paris show leaves the viewer wondering how such a great pioneer of European art could have turned his back on it all, in an almost isolationist way. Perhaps an answer can be found in the enduring power of his photographs, which always frame the changing world before his eyes. Whether Stieglitz was capturing the growing forest of skyscrapers in Manhattan, or snapping his final image of a young tree, he was always looking for the new. As O'Keeffe said, “I never knew him to make a trip anywhere to photograph. His eye was in him, and he used it on anything that was nearby. Maybe that way he was always photographing himself.”

“New York and Modern Art: Alfred Stieglitz and His Circle (1905-1930)” is at the Musée d'Orsay until January 16th 2005, and then moves to Madrid

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Chicago's trading pits

Singer in the last-chance saloon

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THIS is a rip-roaring view of one woman's life in the trading pits of Chicago. Cari Lynn, a young writer who spent two years as a clerk at the Chicago Mercantile Exchange, finds a world populated by larger-than-life characters, high-stakes risk-taking, and excess in all its forms. We follow along as she evolves from an innocent, overwhelmed by the sights, sounds and smells of the male chauvinists who dominate the trading floor, to an astute observer of what goes on amid the hard-drinking, fist-pounding, foul-mouthed mob.

The few women she encounters are dolled-up clerks looking for rich husbands; tough gals who swear like truckers; or, in rare cases, successful female traders who earn respect through quick minds, hard work, and standing their ground in the face of a sexist onslaught.

By the end of her journey, Ms Lynn has set aside female indignation and concludes that life in the pits is about more than male chauvinism (after all, she notes, many of the women there are out to use men). Rather, it is a swirling mass of warring subcultures, each with its own rules and prejudices: the Merc versus the Chicago Board of Trade; options versus futures; the wheat versus the soybean pits. She sees “bravado and hierarchy and insecurities and cliques; the gossip, rumours, and indiscretions; the disingenuousness, self-centredness, and backstabbing; the egos, rites of passage, and hazing; and the whirlwind of ups and downs and downs and ups, cash and debits and debits and cash.”

Leg the Spread: A Woman's Adventures Inside the Trillion-Dollar Boys Club of Commodities Trading
By Cari Lynn

Broadway Books; 320 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

As Chicago's open-outcry pits come under increasing pressure from computerised trading (which is luring in more women), one wonders if the world Ms Lynn describes is on its way out. Occasionally, her book seems dated. No doubt, however, colourful characters will continue to be drawn to the adrenaline rush that money and risk can offer.

By Cari Lynn.
Broadway Books; 320 pages; $24.95

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Graphic books

A life in pictures

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From The Economist print edition

How to say a lot without a lot of words

IT HAS been 26 years since Will Eisner published “A Contract with God”, the first serious, book-length comic to describe itself as a graphic novel. But the medium is only now starting to earn respect in literary circles. The last few years have ushered several talented graphic novelists into the mainstream, such as Daniel Clowes and Joe Sacco. Charles McGrath,a former editor of the *New York Times Book Review*, described the genre as “what novels used to be: an accessible, vernacular form with mass appeal.” Loyal readers sniff that graphic novels—sometimes described as sequential art or comix—are hailed as the next big thing every five years or so, but never quite catch on, and are often banished to areas of bookshops reserved for humour or science fiction.

Art Spiegelman's “Maus”, which was published in two volumes in 1986 and 1991, is a genre-defining work. In scratchy black-and-white drawings with text, Mr Spiegelman tells the story of his father's survival of the Holocaust. The artwork is evocative, with Jews portrayed as mice and Germans as cats, and the narrative is gripping, capturing Mr Spiegelman's own fraught relationship with his father. The images have a visceral power: it is gut-wrenching to see his starving mice crying out in a mass grave. Critics came to appreciate the narrative potential of graphic books, and Mr Spiegelman even won the Pulitzer prize in 1992. But he said that the 295 pages of “Maus” had consumed 13 years of his life, and after the second volume he abandoned the genre, for a time.

In his introduction to “In the Shadow of No Towers”, Mr Spiegelman writes that on the morning of September 11th 2001, after seeing the twin towers fall from his Lower Manhattan neighbourhood, he decided “to return to making comix full-time despite the fact that comix can be so damn labour-intensive that one has to assume that one will live forever to make them.” During 2002 and 2003 he created ten large-scale, politically loaded pages about the tragedy and its aftermath, each originally published in *Die Zeit*, a German broadsheet, and other “old Europe” papers.

They now make up an oversized compendium, puffed with super-thick pages and some old newspaper comics. It is a work of self-therapy, filled with the recurring nightmare of the skeletal towers lit with fire against a blue sky. The immediacy of his horror makes these colourful pages a smorgasbord of trauma, paranoia and fear, unlike the emotional distance and slow burn of “Maus”. As a snapshot of a New Yorker's state after September 11th, it is perhaps reassuring to find it so dated.

Marjane Satrapi has also made a name with her irreverent visual memoirs. “Persepolis 2: The Story of a Return” is her follow-up to “Persepolis: The Story of a Childhood” about growing up in Iran during the Islamic revolution. The first volume ends with her liberal parents sending her to Europe, in order to escape Iran's increasingly oppressive regime. The final panel shows a 14-year-old Marjane boarding a plane, looking back to see her mother fainted in her father's arms.

“Persepolis 2” begins in Vienna, with Marjane wading through an awkward adolescence, confronting the typical trials of a thoughtful outsider. The country she's left behind is at war with Iraq, women must cover themselves up, and the state is calling for martyrs. Still she returns home, unsatisfied with the

In the Shadow of No Towers
By Art Spiegelman

Pantheon; 48 pages; $19.95.
Viking; £20

Buy it at
Amazon.com
Amazon.co.uk

Persepolis 2: The Story of a Return
By Marjane Satrapi

Pantheon; 192 pages; $17.95. Jonathan Cape; £12.99

Buy it at
Amazon.com
Amazon.co.uk

punk disaffection of her western lifestyle, only to feel the same dislocation in a more repressive place. In the first volume, the chronology caught a child's perspective; as Marjane grows older on the page, one begins to hanker for a more sophisticated storyteller.

Yet there is a deceptive simplicity to Ms Satrapi's drawings, which capture a range of emotions with an economy of line. With a notch of a pen above or below an eye, she can render compassion or fatigue. In this way, she teases out universal feelings to draw attention to her country's troubled politics. The effect is powerful.

In the Shadow of No Towers.
By Art Spiegelman.
Pantheon; 48 pages; $19.95.
Viking; £20

By Marjane Satrapi.
Pantheon; 192 pages; $17.95. Jonathan Cape; £12.99

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About sponsorship

Stand-up comedy

Have you heard the one about...

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Cracking jokes the world over

“LAUGHTER is the shortest distance between two people,” said the late Victor Borge, a Danish entertainer who was perhaps the forerunner of globalised stand-up comedy. Traditionally found in English-speaking countries, this unique form of entertainment is exploring its way around the world. Jongleurs, a chain of British comedy clubs, has begun regular shows in Marbella. It also has plans for clubs elsewhere, including Poland and Israel, employing comedians who can speak the relevant language.

Comedians themselves are venturing farther afield. Eddie Izzard, a British comedian who has performed in French, is now learning German to do gigs in Berlin; he will be performing at a club called Quatsch, which is associated with London's Comedy Store, the oldest comedy club in Britain. Addy van der Borgh, another British comedian, recently toured the Middle East—perhaps a surprising destination given that his show is based on his past alcoholism. And comedians from countries without a strong stand-up tradition are beginning to reciprocate: at this year's Edinburgh Fringe Festival, a group of Dutch comedians were the subject of a documentary about their unusual success.

Why is stand-up spreading so fast? Partly because American sitcoms have been sold to almost every country with cable television, and their brand of international humour has made all forms of comedy more accessible. Nick Wilty, a globe-trotting comedian who has played in 92 countries, says he was surprised how well his recent gig in Iceland went down, with the audience getting all the jokes.

In some places it is harder. Mr Wilty recounts his time in Singapore, where he had to produce a list of ten subjects to talk about (and was given a list of banned ones, including politics, sex and religion). He suggested such topics as “the badger population of south-east Kent” but got away with his usual material, as his government minder could not follow his banter. Another experience was more sobering: having done the first live gig in Bali, he discovered that the club had closed; the organisers felt it would be irresponsible to advertise large gatherings of tourists to potential terrorists.

If live comedy is going global, its international capital remains London, where stand-up is thriving. Revenue at the Comedy Store has increased annually by 9% over the past four years. Christian Knowles of the Monday Club, a favourite among comedians, has doubled his shows this autumn from monthly to fortnightly. Scouts and bookers for clubs around the world come to London to spot new talent. And many American comedians, including Dave Fulton and Rich Hall, have settled in London where they have more freedom to develop material, and are paid better.

Some wonder whether the market has reached saturation. Ian Wilson, an agent, thinks so, and for the worse. He saw Jongleurs increase their outlets from two to 14 between 1996 and 2001 (they now have 17), but argues that there was not “a 700% increase in good comics”. He believes a similar glut caused a decline in the American market, and fears that Britain could soon become a victim of its own success.

The share price of Jongleurs' British franchise holder, Regent Inns, has recently fallen steeply. The chain is referred to as “McJongleurs” by the Comedy Store's Don Ward, who says that some compères have far too little experience. But Maria Kempinska, Jongleurs' co-owner, thinks expansion has led to diversification, not dilution, and defends accusations of dumbing down by saying that “the only ones who can dumb down are the comedians themselves”. Nevertheless, some comics maintain that Jongleurs' bookers have told them what they should and shouldn't say.

Clubs open and clubs close. It does not matter too much. The industry is stuffed with talent. And the pervading feel-good factor of humour suggests that stand-up comedy may well survive in a global climate that provides so little else to laugh at.

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New fiction

Un-American activities in Tinseltown

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AT THE heart of Elizabeth Frank's long-awaited first novel about Hollywood are two sisters. Veevi is beautiful and deadly. As a young woman she marries Stefan Ventura, a Bulgarian film-maker and high-profile communist, and their home becomes a pit of political activity. At the end of the 1930s, when things begin to go wrong for him in Hollywood, Ventura and Veevi flee to Paris.

Her plainer, nicer sister, Dinah, stays behind in Los Angeles and marries a Jewish comedy-writer-turned-producer who cheats and charms his way through Tinseltown, keeping his anxieties at bay with copious helpings of extra-marital sex and ice cream won in dawn raids on the fridge.

When the book opens in the early 1950s Dinah has just received a summons to appear before the House Un-American Activities Committee. Should she name names and save her husband's career even if it means, despite all her excuses and justifications, that she will never again sleep easily in bed at night? Or should she resist the bullying and refuse to co-operate, at the risk of being for ever ostracised from the Hollywood establishment?

Cheat and Charmer
By Elizabeth Frank

Random House; 543 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Drawing on her own experiences as a child of a Hollywood writer after the second world war, Ms Frank has written a right romp of a novel. The excursions she takes to Europe are occasionally unsteady; it is Windsor Castle not Palace, Gerrards Cross not Crossing, but her account of the inescapable legacy of the blacklist, the wrecked lives, lost opportunities and the bitterness between friends who became betrayers and betrayed makes for a spectacularly good read.

Chinua Achebe says on the front cover that Ms Frank's book will “take a front seat in contemporary American writing”. That may be overstating its literary qualities but “Cheat and Charmer” is an accomplished work of commercial fiction. Buy a copy for your best friend, and for her mother.

Cheat and Charmer.
By Elizabeth Frank.
Random House; 543 pages; $25.95

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About sponsorship

Obituary

Veerappan

Oct 28th 2004
From The Economist print edition

Rex

Koose Muniswamy Veerappan, bandit, died on October 18th, aged 52

“BANDIT”, like “brigand”, has a romantic ring. To some ears it evokes fugitive outlaws—from Robin Hood to Jesse James—who have seemed nobler than the forces of law and order on their trail. It is probably how the man known throughout India simply as Veerappan would like to be remembered. That, however, would be an injustice to the 124 people he is said to have killed. Veerappan was a murderer, and a cruel one at that. An Osama-style old video shows him talking with relish of the pain inflicted on one victim before he blew his head off.

Veerappan was himself shot through the forehead when the police ambushed him and three henchmen. His proud killers posed around his corpse with broad smiles and their thumbs up, like tiger-hunters. But the applause for them was not universal. In the villages dotting the thick forest that was his stomping ground, some recalled Veerappan showering sweets on children and reports of his generosity to the poor. The families of the dozens he had killed as informers were incredulous. But some 20,000 packed the village where his funeral was held, drawn by his mystique and his fame. His distraught widow told journalists he was a good man, though her two daughters hardly knew him.

Already, treasure-hunters were scouring the forest for the fortune he was supposed to have buried in plastic bags under trees. In death as in life, Veerappan, a petty thug with a gift for public relations, spread a potent myth. In this his hunters abetted him. A 750-strong special task-force had spent 14 years and a fortune trying to catch him. To explain their failure, it helped to credit him with near-supernatural powers—“like a forest ghost”, said one.

Veerappan started his career following in his father's footsteps as an ivory poacher in the thickly wooded hills between the Indian states of Karnataka and Tamil Nadu. He is said to have been 14 when he killed his first elephant, and to have slaughtered hundreds over the years.

As elephants became harder to find, he diversified into another endangered species: ancient sandal trees. Sandalwood, prized for its oil in soap, perfume and traditional ayurvedic medicine, is also, as incense, integral to Hindu religious ceremonies. Forty years ago the governments of Karnataka and Tamil Nadu imposed a monopoly on the ownership and felling of the trees. They restricted cultivation, trusting to their abundant wild crop.

As sandalwood prices rose, a black market flourished. Sandal trees, which take 25 to 40 years to reach maturity, were chopped down in private gardens and public parks. Veerappan was not the only bootlegger to turn abundance into shortage. But he was one of the most prolific. Eco-vandalism has a short-term commercial logic: scarcity inflates prices. In the long run, however, killing off your raw material is not a sustainable business model, and Veerappan branched out again.

His region had another money-spinning product: granite. Running a quarry was not Veerappan's style, but he spotted a way into the business's profits. In 1990, one of the first of many people he kidnapped was a quarry owner. This was a line of work with an inexhaustible supply of victims, and only some had to be killed to ensure the flow of ransom money.

Hitting the big time

Veerappan's fame began to grow. So did his moustache and his ego. He would pose for photographs with his rifle and his luxuriant handlebar. He mocked the policemen and politicians who condemned him. His gang acquired more and better weapons and its numbers swelled to more than 100. He even began to present himself as some kind of freedom fighter, a Tamil nationalist—like the “Tigers” of Sri Lanka, whom he resembled only in his brutality.

His career as a kidnapper reached its zenith in 2000, when he seized Rajkumar, one of the biggest stars of the Kannada-language film industry of Karnataka. A policeman who was involved in the transaction says that Rajkumar's release after 108 days in captivity cost 200m rupees ($4.4m) in ransom from the Karnataka state coffers. Two years later his victim was H. Nagappa, a former minister in that government, who had been one of his fiercest critics. This time the price paid was Mr Nagappa's life.

By the time he died, however, Veerappan was a diminished figure. His gang had dwindled to a handful, and had been infiltrated by the police. He was lured into a trap, leaving his forest hideout in a phoney ambulance on his way, he thought, to have a cataract operation. Even allowing for the punctured forehead, his corpse looked old and tired. Shockingly, his lush whiskers had been drastically trimmed. As vain as he was vicious, he would have been distressed that this was the last image he left his public.

Human-rights groups criticised the police for not nabbing him alive. Among Veerappan's boasts was that he had bribed powerful policemen and politicians in return for protection. Knowing the morals of their public servants and how long the hunt had taken, many Indians believed him, and suspected the police of deliberately silencing him. It is not just treasure-hunters who regret that he has taken his secrets to the grave.

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Overview

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The dollar fell to an eight-month low, hitting a rate of $1.28 against the euro—within a whisker of its all-time low of $1.29. The **gold** price came close to a 16-year high, just over $430, before retreating slightly.

Just one week before **America's** presidential election, the Conference Board's survey of consumer confidence showed a rise in economic discontent. Its index fell to 92.8 in October, a steeper-than-expected drop from September's reading of 96.7 and the lowest level in seven months. Higher petrol prices and sluggish jobs growth contributed to the gloom. Respondents' expectations for the future fell more sharply than their assessment of the present.

America's **housing market** continues to post strong results. Sales of new homes rose by 3.5% in September, while sales of existing homes grew by 3.1%.

Consumer prices in **Germany** rose by 2.1% in the year to October, up from 1.8% in September. Wages rose by only 1.5% in the year to August, which means that workers' real pay is shrinking. But higher oil prices and a stronger euro have not yet dented German business confidence. In October, the IFO business-climate indicator rose to 95.3 from 95.2 in September. Most economists had expected confidence to fall.

Britain's GDP rose by only 0.4% in the third quarter, although its 12-month growth was still a brisk 3.0%. British businessmen are also feeling gloomier. The latest CBI industrial trends survey suggests that the manufacturing industry may be falling back into recession: the net balance of respondents who are optimistic rather than pessimistic fell to minus 10 in October from plus 7 in July.

Belgium's GDP growth quickened to 3.0% in the third quarter, its fastest for four years.

Sweden's consumers are on a roll: retail sales rose by 5.2% in the 12 months to September. Even so, this was down from annual growth of 6.4% in the previous month.

Australia's 12-month rate of consumer-price inflation fell to 2.3% in the third quarter. However, producer-price inflation rose to 6.1% over the same period.

In **Canada**, consumer-price inflation slowed to 1.8% in the year to September, down from 1.9% in the year to August.

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Output, demand and jobs

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% change on year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	The Economist poll GDP forecasts 2005	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 4.1 Q2	+ 2.5	+ 3.7	+ 3.3	+ 4.6 Q2	+ 7.9 Q2	5.6 Sep	5.9
Austria	+ 1.8 Q2	+ 3.5	+ 1.6	+ 2.1	+ 6.1 Jul	+ 3.5 Jul	4.5 Sep	4.5
Belgium	+ 3.0 Q3	+ 3.2	+ 2.4	+ 2.1	+ 4.0 Aug	+ 1.7 Jul	13.2 Sep†	13.2
Britain	+ 3.0 Q3	+ 1.5	+ 3.4	+ 2.7	– 0.1 Aug	+ 6.9 Sep	4.7 Aug††	5.0
Canada	+ 3.0 Q2	+ 4.3	+ 3.0	+ 3.4	+ 4.1 Jul	+ 2.4 Jul	7.1 Sep	7.9
Denmark	+ 2.6 Q2	+ 0.9	+ 2.2	+ 2.3	– 1.1 Aug	+ 4.5 Aug	6.3 Sep	6.3
France	+ 2.8 Q2	+ 2.8	+ 2.5	+ 2.3	+ 0.7 Aug	+ 1.0 Aug	9.9 Aug	9.8
Germany	+ 2.0 Q2	+ 1.9	+ 1.5	+ 1.7	+ 3.5 Aug	– 1.4 Aug	10.7 Sep§	10.5
Italy	+ 1.2 Q2	+ 1.1	+ 1.2	+ 1.6	– 3.5 Aug	– 2.3 Jul	8.1 Apr	8.7
Japan	+ 4.2 Q2	+ 1.3	+ 4.3	+ 2.2	+ 3.8 Sep	– 1.6 Aug	4.8 Aug	5.1
Netherlands	+ 1.3 Q2	– 0.4	+ 1.2	+ 1.6	– 0.1 Aug	– 0.7 Jun‡	6.1 Sep**	5.4
Spain	+ 2.6 Q2	+ 2.0	+ 2.6	+ 2.6	+ 5.5 Aug	– 1.6 Aug	11.0 Aug	11.2
Sweden	+ 3.6 Q2	+ 4.0	+ 3.3	+ 2.8	+ 3.9 Aug	+ 5.2 Sep	5.8 Sep†	4.8
Switzerland	+ 2.0 Q2	+ 1.6	+ 1.9	+ 2.0	+ 4.3 Q2	+ 3.1 Aug	3.7 Sep†	3.7
United States	+ 4.8 Q2	+ 3.3	+ 4.3	+ 3.4	+ 4.6 Sep	+ 4.1 Aug	5.4 Sep	6.1
Euro area	+ 2.0 Q2	+ 2.0	+ 1.9	+ 1.9	+ 1.5 Aug	– 0.4 Aug	9.0 Aug	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.7 Q2	+ 2.9	na	na	+ 7.2 Aug	+ 3.8 Aug	7.2 Sep†	8.0
Greece	+ 3.9 Q2	– 0.6	na	na	– 0.5 Aug	+ 6.6 Jul	na	na
Iceland	+ 6.2 Q2	na	na	na	na	na	3.0 Jul†	3.0
Ireland	+ 4.1 Q2	na	na	na	–12.6 Aug	+ 4.5 Aug	4.5 Sep	4.6
Luxembourg	+ 2.12003	na	na	na	– 1.2 Dec	– 1.1 May	4.1 Aug	3.6
New Zealand	+ 6.0 Q2	+ 4.6	na	na	+ 5.5 Q2	+ 6.8 Q2	4.0 Q2	4.7
Norway	+ 4.1 Q2	+ 5.0	na	na	– 6.5 Aug	+ 3.6 Aug	3.7 Oct	3.8
Portugal	+ 1.5 Q2	+ 4.7	na	na	– 3.9 Aug	+ 5.4 Aug	6.3 Q2†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 2.7% in Sep. §EU harmonised rate 9.9% in Sep. **Jul-Sep.

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Prices and wages

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% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2004	The Economist poll consumer prices forecast 2005	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.3	Q3	+ 2.6	+ 2.4	+ 2.7	+ 6.1	Q3	– 0.1	+ 2.9	Q2	+ 5.5
Austria	+ 2.1	Sep	+ 1.4	+ 1.7	+ 1.6	+ 6.0	Sep	+ 1.3	+ 1.9	Aug	+ 2.3
Belgium	+ 2.0	Sep	+ 1.8	+ 1.9	+ 1.7	+ 6.0	Sep	– 1.4	+ 2.2	Jul	+ 1.9
Britain	+ 1.1	Sep*	+ 1.4	+ 1.4	+ 1.8	+ 3.1	Sep	+ 1.4	+ 3.9	Aug†	+ 3.4
Canada	+ 1.8	Sep	+ 2.2	+ 2.0	+ 2.2	+ 4.9	Aug	– 1.9	+ 2.2	Aug	+ 3.5
Denmark	+ 1.1	Sep	+ 1.9	+ 1.2	+ 1.8	+ 3.4	Sep	– 0.5	+ 3.1	Q2	+ 3.8
France	+ 2.2	Sep	+ 2.1	+ 2.2	+ 1.6	+ 3.1	Sep	+ 0.1	+ 2.8	Q2	+ 2.7
Germany	+ 2.1	Oct	+ 1.2	+ 1.7	+ 1.3	+ 3.4	Sep	+ 0.5	+ 1.5	Aug	+ 2.0
Italy	+ 2.1	Sep	+ 2.8	+ 2.3	+ 2.1	+ 3.5	Aug	+ 1.4	+ 2.5	Sep	+ 2.7
Japan	– 0.2	Aug	– 0.3	– 0.1	+ 0.1	+ 1.8	Sep	– 0.6	+ 1.3	Aug	+ 0.7
Netherlands	+ 1.0	Sep	+ 2.0	+ 1.4	+ 1.2	+ 5.3	Aug	+ 0.6	+ 1.1	Sep	+ 2.6
Spain	+ 3.5	Oct	+ 2.7	+ 2.9	+ 2.7	+ 4.6	Sep	+ 0.8	+ 3.1	Q2	+ 4.2
Sweden	+ 0.6	Sep	+ 1.7	+ 0.8	+ 1.5	+ 2.1	Oct	– 1.9	+ 2.4	Jul	+ 3.6
Switzerland	+ 0.9	Sep	+ 0.5	+ 0.8	+ 1.1	+ 1.5	Sep	– 0.4	+ 1.4	2003	+ 1.8
United States	+ 2.5	Sep	+ 2.3	+ 2.6	+ 2.2	+ 3.3	Sep	+ 3.5	+ 2.4	Sep	+ 2.4
Euro area	+ 2.1	Sep	+ 2.2	+ 2.1	+ 1.7	+ 3.1	Aug	+ 1.4	+ 2.1	Q2	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Sep	+ 0.7	na	na	+ 2.5	Sep	– 0.7	+ 3.5	Q2	+ 4.4
Greece	+ 2.8	Sep	+ 3.3	na	na	+ 2.1	Aug	+ 2.2	na		na
Iceland	+ 3.7	Oct	+ 2.2	na	na	+ 5.6	Oct	+ 3.7	+ 5.3	Sep	+ 5.6
Ireland	+ 2.5	Sep	+ 2.9	na	na	– 0.8	Sep	– 7.8	+ 3.8	Q2	+ 8.0
Luxembourg	+ 2.0	Sep	+ 2.1	na	na	+11.0	Aug	+ 0.5	– 0.4	Dec	+ 0.7
New Zealand	+ 2.5	Q3	+ 1.5	na	na	+ 1.5	Q2	– 1.9	+ 2.3	Q2	+ 2.3
Norway	+ 1.1	Sep	+ 2.1	na	na	+20.3	Sep	– 0.5	+ 4.5	Q2	+ 5.4
Portugal	+ 2.1	Sep	+ 3.1	na	na	+ 4.5	Sep	– 0.2	– 0.2	Aug	– 1.4

*New series. RPI inflation rate 3.1% in Sep. †Jun-Aug.

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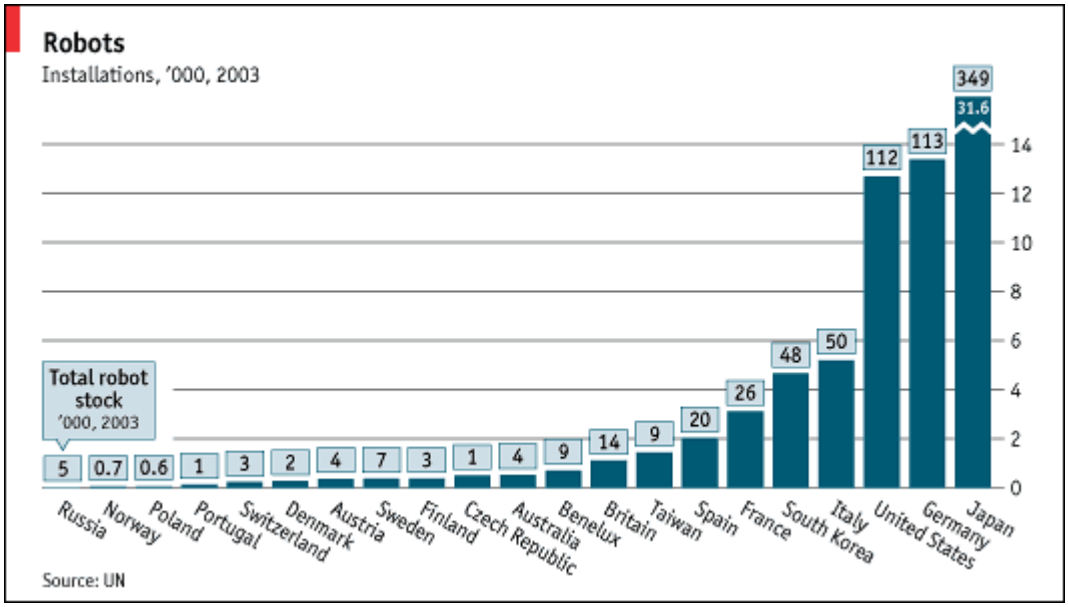
Robots

Oct 28th 2004
From The Economist print edition



Worldwide investment in industrial robots grew by 19% in 2003. Japan and Germany have the largest number of robots, according to the latest figures from the United Nations Economic Commission for Europe and the International Federation of Robotics. But there was even greater growth in the use of robots in the domestic sphere. Sales of robot vacuum cleaners and lawn-mowers are thought to be running at nearly 1m a year.

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Money and interest rates

Oct 28th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Oct 27th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.6	+10.0	Aug	5.44	4.99	4.99	5.30	5.63	6.10
Britain	+ 5.8	+ 9.3	Sep	4.84	3.88	4.52	4.68	5.03	5.35
Canada	+ 9.6	+ 9.1	Sep	2.57	2.64	3.23	4.45	4.83	5.96
Denmark	+ 9.8	+10.7	Sep	2.25	2.20	2.51	3.86	4.44	5.30
Japan	+ 4.1	+ 2.1	Sep	0.03	0.02	0.12	1.42	1.42	1.49
Sweden	+ 1.6	+ 3.1	Sep	1.99	2.72	2.56	4.10	4.87	2.62
Switzerland	– 2.0	+ 0.6	Sep	0.71	0.24	0.94	2.43	2.70	2.36
United States	+ 5.0	+ 4.8	Sep	2.06	1.08	2.60	3.99	4.27	5.54
Euro area†	+ 9.7	+ 6.0	Sep	2.15	2.15	2.38	3.78	4.26	4.84

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.85%, Japan No. 264 1.42%. Central bank rates: US fed funds 1.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Oct 28th 2004
From The Economist print edition

Market indices

	Oct 27th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,753.7	3,753.7	3,274.9	+ 1.2	nil	+13.5	+12.8
Austria (ATX)	2,087.9	2,119.0	1,568.9	nil	- 1.5	+35.1	+36.8
Belgium (Bel 20)	2,758.9	2,775.2	2,244.2	+ 0.1	-25.1	+22.9	+24.5
Britain (FTSE 100)	4,630.1	4,707.1	4,287.0	+ 0.3	-33.2	+ 3.4	+ 6.1
Canada (Toronto Composite)	8,791.0	8,898.8	8,123.5	nil	-22.8	+ 6.9	+13.2
Denmark (KBX)	244.7	253.0	219.0	- 0.9	-18.9	+14.6	+16.2
France (SBF 250)	2,520.0	2,594.4	2,386.1	+ 0.3	-42.6	+ 4.5	+ 5.8
(CAC 40)	3,678.4	3,811.4	3,465.3	+ 0.3	-46.9	+ 3.4	+ 4.7
Germany (DAX)	3,929.0	4,151.8	3,647.0	+ 0.4	-51.3	- 0.9	+ 0.3
Italy (BCI)	1,348.8	1,356.4	1,239.5	+ 0.6	-38.2	+ 7.3	+ 8.7
Japan (Nikkei 225)	10,692.0	12,163.9	10,365.4	- 1.7	-72.5	+ 0.1	+ 0.9
(Topix)	1,074.3	1,217.9	1,022.6	- 1.8	-62.8	+ 2.9	+ 3.7
Netherlands (AEX)	327.7	364.8	310.7	+ 0.7	-53.3	- 2.9	- 1.7
Spain (Madrid SE)	880.8	883.2	804.4	+ 0.6	-23.2	+ 9.0	+10.4
Sweden (Affarsvarlden Gen)	207.0	218.1	188.5	- 1.2	-48.3	+ 9.9	+12.0
Switzerland (Swiss Market)	5,374.9	5,934.4	5,309.7	nil	-36.1	- 2.1	+ 1.0
United States (DJIA)	10,002.0	10,737.7	9,750.0	+ 1.2	-14.7	- 4.3	- 4.3
(S&P 500)	1,125.4	1,157.8	1,063.2	+ 2.0	-26.3	+ 1.2	+ 1.2
(NASDAQ Comp)	1,970.0	2,153.8	1,752.5	+ 1.9	-61.0	- 1.7	- 1.7
Europe (FTSE Eurotop 300)*	995.1	1,026.2	940.9	+ 0.3	-41.6	+ 3.9	+ 5.2
Euro area (FTSE Ebloc 100)*	847.9	888.3	787.2	+ 0.5	-45.3	+ 2.0	+ 3.2
World (MSCI)†	1,068.3	1,085.8	997.0	+ 1.6	-26.3	+ 3.1	+ 3.1
World bond market (Citigroup)‡	633.4	633.8	575.1	+ 1.2	- 0.1	+ 4.9	+ 4.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Oct 28th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2004	Current-account balance The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Oct 27th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Oct 27th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0 Aug	− 34.2 Q2	− 5.8	− 5.0	86.0	84.7	1.34	1.42	2.45	1.71	1.26	+ 0.5
Austria	− 0.6 Jul	− 1.2 Aug	− 0.3	− 0.4	103.0§	102.8	0.78	0.86	1.44	–	0.74	− 1.3
Belgium	+ 20.6 Aug	+ 13.0 Jun	+ 3.2	+ 3.2	103.1§	102.8	0.78	0.86	1.44	–	0.74	− 0.2
Britain	−100.8 Aug	− 41.7 Q2	− 2.4	− 2.6	102.0	101.2	0.54	0.59	–	0.70	0.51	− 2.9
Canada	+ 51.6 Aug	+ 23.8 Q2	+ 2.8	+ 2.4	93.9	88.6	1.22	1.31	2.24	1.56	1.15	+ 1.2
Denmark	+ 10.1 Aug	+ 6.8 Aug	+ 2.9	+ 2.6	106.9	106.9	5.82	6.36	10.7	7.43	5.47	+ 0.9
France	− 0.9 Aug††	− 2.0 Aug	+ 0.3	+ 0.3	106.5§	106.1	0.78	0.86	1.44	–	0.74	− 3.8
Germany	+188.1 Aug	+ 92.5 Aug	+ 3.1	+ 2.9	104.3§	103.7	0.78	0.86	1.44	–	0.74	− 3.7
Italy	+ 3.2 Aug	− 12.2 Aug	− 0.9	− 1.1	76.0§	75.6	0.78	0.86	1.44	–	0.74	− 3.1
Japan	+132.7 Aug	+167.0 Aug	+ 3.5	+ 3.5	135.6	138.9	105	108	195	136	–	− 7.1
Netherlands	+ 34.2 Aug	+ 20.7 Q2	+ 2.9	+ 3.0	102.5§	102.2	0.78	0.86	1.44	–	0.74	− 3.1
Spain	− 64.0 Jul	− 35.8 Jul	− 3.1	− 3.1	77.1§	76.9	0.78	0.86	1.44	–	0.74	+ 0.3
Sweden	+ 23.1 Sep	+ 23.4 Q2	+ 6.6	+ 6.1	82.9	81.8	7.06	7.70	13.0	9.02	6.64	+ 0.2
Switzerland	+ 7.9 Sep	+ 45.0 Q2	+11.3	+10.8	114.0	111.0	1.20	1.33	2.20	1.53	1.13	− 1.6
United States	−611.6 Aug	−571.9 Q2	− 5.5	− 5.3	92.3	98.1	–	–	1.84	1.28	0.94	− 4.7
Euro area	+106.4 Aug	+ 60.3 Aug	+ 0.6	+ 0.6	92.4	89.2	0.78	0.86	1.44	–	0.74	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.6 Aug	+ 8.5 Aug	na	na	82.1§	81.8	0.79	0.86	1.45	–	0.74	+ 1.6
Greece	− 29.6 Aug	− 10.9 Aug	na	na	59.6§	59.4	0.79	0.86	1.45	–	0.74	− 3.2
Iceland	− 0.5 Aug	− 0.6 Q2	na	na	95.7**	97.2	69.4	76.0	128	88.6	65.3	+ 0.2
Ireland	+ 42.4 Jul	− 1.7 Q2	na	na	94.2§	94.3	0.79	0.86	1.45	–	0.74	− 0.5
Luxembourg	− 4.3 Jul	+ 2.1 Q2	na	na	103.1§	102.8	0.79	0.86	1.45	–	0.74	− 1.8
New Zealand	− 2.4 Aug	− 3.9 Q2	na	na	108.3	99.1	1.44	1.63	2.65	1.84	1.35	+ 2.9
Norway	+ 31.4 Sep	+ 31.7 Aug	na	na	99.1	97.1	6.53	7.03	12.0	8.34	6.14	+ 10.4
Portugal	− 16.6 Jul	− 11.2 Aug	na	na	93.4**	93.8	0.79	0.86	1.45	–	0.74	− 3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, August average. ‡OECD forecast. ††New series. **IMF, June average.

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The Economist commodity price index

Oct 28th 2004
From The Economist print edition

1995=100

	Oct 19th	Oct 26th*	% change on one month	% change on one year
Dollar index				
All items	86.3	86.1	– 2.6	+ 0.1
Food	80.0	80.0	– 0.7	– 6.6
Industrials				
All	94.9	94.2	– 4.7	+ 9.0
Nfa†	80.5	81.7	– 4.0	– 9.9
Metals	107.1	104.9	– 5.1	+26.5
Sterling index				
All items	75.4	73.9	– 3.9	– 7.7
Euro index				
All items	90.7	88.6	– 6.1	– 8.4
Yen index				
All items	99.6	97.6	– 6.8	– 1.6
Gold				
$ per oz	419.73	425.73	+ 3.6	+10.9
West Texas Intermediate				
$ per barrel	53.14	55.20	+10.6	+87.0

* Provisional. † Non-food agriculturals.

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Foreign-exchange reserves

Oct 28th 2004
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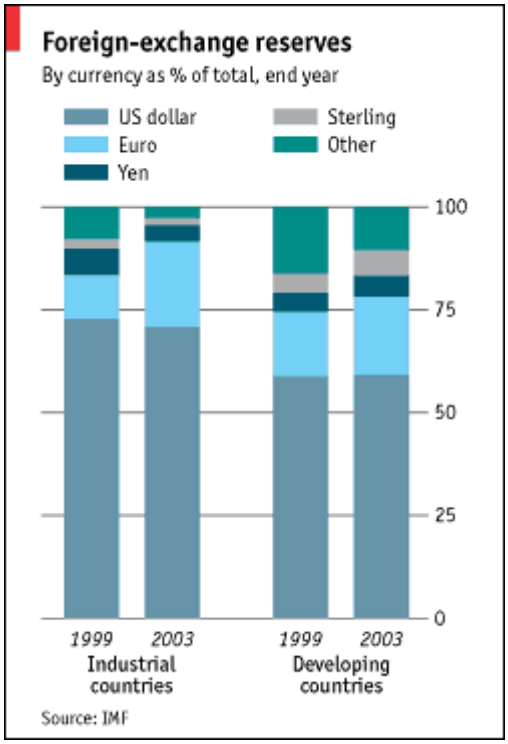

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Overview

Oct 28th 2004
From The Economist print edition

China's GDP growth slowed slightly to 9.1% in the year to the third quarter, from 9.6% in the year to the previous quarter. Consumer prices rose by 5.2% in the year to September.

Industrial production in **Singapore** soared by 11.8% in the year to September, up from growth of 5.3% in the year to August.

Israel's industrial output rose by 12.5% in the year to August.

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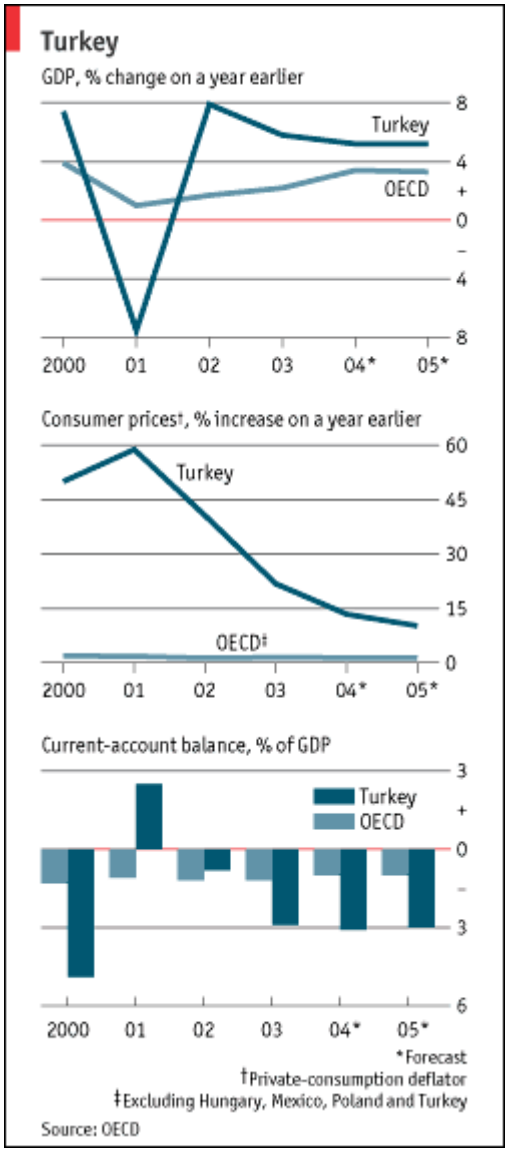
Turkey

Oct 28th 2004
From The Economist print edition

The Turkish economy has rebounded strongly from a steep downturn in 2001. At 5.2%, growth in 2004 is expected to be well above the OECD average, and inflation is in single figures for the first time since 1972. But labour productivity remains low and unemployment stubbornly high. The OECD says the country's high debt level, its public-sector inefficiencies and large black economy need to be tackled if it is to realise its full growth potential, which the OECD puts at a rate of above 7% a year. Any efforts will be boosted if the European Council decides on December 17th to begin accession negotiations with Turkey.



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Economy

Oct 28th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+16.1	Sep	+ 5.2	Sep	+20.9	Sep	+45.9	2003	514.5	Sep
Hong Kong	+12.1	Q2	+ 1.1	Q2	+ 0.7	Sep	−13.8	Sep	+13.6	Q2	118.4	Sep
India	+ 7.4	Q2	+ 7.9	Aug	+ 4.6	Aug	−20.0	Sep	+11.0	Q2	113.3	Sep
Indonesia	+ 4.3	Q2	− 9.6	Jul	+ 6.3	Sep	+24.3	Aug	+ 3.9	Q2	33.6	Aug
Malaysia	+ 8.0	Q2	+10.6	Aug	+ 1.6	Sep	+20.2	Aug	+13.6	Q2	56.9	Sep
Philippines	+ 6.2	Q2	− 5.0	Aug	+ 6.9	Sep	− 1.4	Aug	+ 4.5	Jun	12.5	Sep
Singapore	+ 7.7	Q3	+11.8	Sep	+ 2.0	Sep	+16.3	Sep	+28.4	Q2	102.8	Sep
South Korea	+ 5.5	Q2	+10.6	Aug	+ 3.9	Sep	+29.2	Sep	+28.0	Sep	174.4	Sep
Taiwan	+ 7.7	Q2	+ 8.1	Sep	+ 2.8	Sep	+10.8	Sep	+25.8	Q2	233.0	Sep
Thailand	+ 6.3	Q2	+ 6.1	Aug	+ 3.6	Sep	+ 1.3	Aug	+ 6.7	Aug	42.8	Aug
Argentina	+ 7.0	Q2	+ 6.0	Sep	+ 5.8	Sep	+12.6	Aug	+ 4.6	Q2	18.2	Sep
Brazil	+ 5.7	Q2	+13.1	Aug	+ 6.7	Sep	+32.2	Sep	+ 9.8	Sep	49.6	Aug
Chile	+ 5.1	Q2	+ 9.0	Aug	+ 2.2	Sep	+ 7.5	Sep	+ 1.2	Q2	15.8	Sep
Colombia	+ 4.3	Q2	+ 8.9	Aug	+ 6.0	Sep	+ 0.2	Jul	− 1.6	Q2	12.0	Sep
Mexico	+ 3.9	Q2	+ 5.2	Aug	+ 5.1	Sep	− 4.9	Sep	− 6.7	Q2	61.0	Aug
Peru	+ 6.0	Aug	+ 5.2	Aug	+ 4.0	Sep	+ 1.9	Aug	− 0.7	Q2	11.2	Sep
Venezuela	+13.6	Q2	+27.6	Jul	+20.8	Sep	+20.3	Q2	+14.0	Q2	18.7	Jul
Egypt	+ 4.3	2004†	+ 2.3	2003†	+16.5	May‡	− 7.5	Q2	+ 3.7	Q2	13.6	Jun
Israel	+ 2.8	Q2	+12.5	Aug	+ 0.8	Sep	− 5.7	Sep	+ 0.1	Q2	26.1	Sep
South Africa	+ 2.5	Q2	+ 6.8	Aug	+ 1.3	Sep	− 0.9	Aug	− 3.5	Q2	10.7	Sep
Turkey	+13.4	Q2	+ 8.8	Aug	+ 9.0	Sep	−31.3	Aug	−12.4	Aug	33.9	Aug
Czech Republic	+ 4.1	Q2	+ 8.7	Aug	+ 3.0	Sep	− 1.9	Aug	− 6.2	Q2	26.8	Sep
Hungary	+ 4.0	Q2	+ 3.6	Aug	+ 6.6	Sep	− 3.0	Q2	− 8.4	Q2	12.8	Sep
Poland	+ 6.1	Q2	+ 9.3	Sep	+ 4.4	Sep	− 5.3	Jul	− 4.0	Jul	35.3	Sep
Russia	+ 7.4	Q2	+ 3.5	Sep	+11.5	Sep	+71.8	Aug	+44.6	Q3	94.3	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.9	Q2	+ 5.7	Sep	+ 3.9	Sep	− 2.5	Aug	− 1.5	Q2	1.4	Sep
Latvia	+ 7.7	Q2	+ 6.4	Aug	+ 7.7	Sep	− 2.4	Aug	− 1.4	Aug	1.6	Aug
Lithuania	+ 6.9	Q2	na		+ 3.2	Sep	− 3.2	Aug	− 1.8	Q2	3.4	Aug
Slovakia	+ 5.4	Q2	+ 5.4	Aug	+ 6.6	Sep	− 1.1	Aug	− 0.7	Jul	13.2	Sep
Slovenia	+ 4.6	Q2	+11.5	Aug	+ 3.3	Sep	− 0.9	Aug	− 0.2	Aug	7.7	Jul
Pakistan	+ 6.4	2004†	+24.8	May	+ 9.0	Sep	− 3.9	Sep	+ 1.8	Q2	10.6	Aug
Saudi Arabia	+ 7.2	2003	na		+ 0.2	Jul	+61.2	2003	+29.7	2003	22.2	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series, % change Jan-May annualised.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Oct 28th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 27th		Dec 31st 2003	
	Oct 27th	year ago	Oct 27th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.2	3.20	1,408.8	+0.9	– 10.2	– 10.2
Hong Kong	7.78	7.76	14.3	0.52	12,838.7	– 1.2	+ 2.1	+ 1.9
India	45.6	45.3	83.8	5.02	5,662.9	– 0.2	– 3.0	– 3.0
Indonesia	9,112	8,530	16,740	7.51	849.2	+1.0	+ 22.7	+ 13.5
Malaysia	3.80	3.80	6.98	2.87	851.6	+0.3	+ 7.3	+ 7.3
Philippines	56.4	55.4	103.7	7.69	1,774.3	– 0.6	+ 23.0	+ 21.1
Singapore	1.66	1.74	3.06	1.38	1,959.1	+0.3	+ 11.0	+ 13.4
South Korea	1,124	1,180	2,064	3.53	809.9	– 2.3	– 0.1	+ 5.9
Taiwan	33.6	33.9	61.7	1.25	5,651.0	– 2.4	– 4.1	– 3.0
Thailand	41.1	39.9	75.5	2.00	626.9	– 3.9	– 18.8	– 21.7
Argentina	2.97	2.85	5.46	5.63	1,286.1	+5.8	+ 20.0	+ 18.3
Brazil	2.86	2.85	5.25	16.74	23,170.0	+1.3	+ 4.2	+ 5.1
Chile	611	634	1,122	2.04	8,765.1	+0.9	+ 19.5	+ 15.9
Colombia	2,577	2,868	4,734	7.70	3,704.6	+0.2	+ 58.7	+ 71.2
Mexico	11.5	11.1	21.2	7.97	11,517.7	+4.0	+ 31.0	+ 27.8
Peru	3.32	3.48	6.10	3.04	3,532.8	– 0.7	+ 45.1	+ 51.5
Venezuela	2,491§	1,598	4,576	11.83	29,206.9	– 4.1	+ 31.5	+ 50.6
Egypt	6.22	6.15	11.42	10.95	21,406.5	+3.2	+ 83.9	+ 82.5
Israel	4.46	4.51	8.20	1.00	545.2	– 0.5	+ 2.0	+ 0.5
South Africa	6.17	6.91	11.3	7.55	11,796.6	+1.7	+ 13.6	+ 22.9
Turkey	1,477,500	1,519,368	2,714,463	23.05	22,565.8	+1.6	+ 21.2	+ 15.2
Czech Republic	24.8	27.5	45.6	2.61	892.9	– 1.3	+ 35.5	+ 40.1
Hungary	194	219	356	10.42	13,075.7	+0.5	+ 39.4	+ 49.1
Poland	3.41	3.98	6.26	6.68	24,949.5	+0.1	+ 19.8	+ 31.6
Russia	28.8	29.8	52.9	13.00	668.6‡	+4.3	+ 16.0	+ 17.9
EMF (MSCI)*	1.00	1.00	1.84	na	469.7	+1.4	+ 6.1	+ 6.1
EMBI+†	1.00	1.00	1.84	na	317.4	+0.2	+ 7.7	+ 7.7

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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